

# **Business Association Practices**

## **Part I of II** ***Business Association Management***

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*The findings, interpretations and conclusions in this manual  
are entirely those of the authors and do not necessarily represent  
the opinions or views of either BIZPRO or USAID.*

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### Dear Readers,

This manual is designed to assist you in establishing, operating, expanding, and improving your membership-based business association. The manual comprises two parts – one on management and a second on advocacy. Even still, the topics covered in this manual are not exhaustive – if we tried to cover everything that could be said about associations in Ukraine it would take far too long!! Instead we focused on those topics that were covered in our training seminars and which the participants said were most helpful, most innovative, and most unique compared to the existing literature on associations.

We have tried, where possible, to include the comments and examples from existing associations in Ukraine. Not only do we hope that this will encourage you to try new approaches, but will also provide you with local resources you can call upon to share ideas and examples.

However, this manual – both parts – should not be viewed as the sum total of BIZPRO's assistance to Ukrainian associations. As already mentioned, the manual resulted from a series of management seminars conducted for association executives. Those seminars will continue in the coming years; and the manual should be viewed as the foundation upon which the seminars will continue to build. In addition, BIZPRO has been working intensively with a group of 15 associations on their management and operations, with another 25 associations to establish a phone-based hotline service for entrepreneurs in each oblast, and with eight groups of associations ("coalitions") to address policy constraints at the local and national level. We expect that all of this work will continue in coming years as a part of the United States Agency for International Development program in Ukraine.

We hope that, as you read this manual, you are inspired to think about and manage your association in new ways, taking examples from the manual and adapting them to the operations of your organization. We also hope that, if you are not already involved, you decide to become more active in BIZPRO activities and programs.

And, of course, we look forward to your feedback regarding the helpfulness and usefulness of manual.

With best wishes for stronger and more active business associations in Ukraine,



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### AUTHORS' PREFACE

This manual is dedicated to business associations. Typically, these are voluntary, non-profit organizations whose members enjoy equal rights. They exist because member entities and clients need them. To be successful, a business association must have clear membership criteria and an unambiguous objective; these enable it to define a mission statement and identify a range of services members require. Services offered must not only satisfy the needs of members but must also match the association's capabilities.

Business associations operate within a very specific legal environment. Therefore, knowledge of Ukrainian legislation and regulations governing non-profit and non-governmental organizations – especially the awareness of legal criteria an organization must satisfy to be recognized as a non-profit business association and the legally allowed mechanisms for accepting payment for services provided – becomes critical if the business association wishes to serve the needs its members and clients effectively and efficiently.

Each business association is expected to protect the rights, and lobby the interests, of its members. This is the service that any business association provides and that clearly distinguishes it from other organizations. For a business association, this service is an important tool for achieving its objectives and satisfying the needs of its members. That is why this service is dealt with separately, and in greater detail, in the second half of this manual.

The authors believe that the success of these associations is a function of their ability to identify member entities' needs, to define a mission statement clearly, to choose target markets, to establish a suitable organizational structure, and to offer the right services. In other words, the success of an association depends on its ability to mobilize people and resources and to shape them into a viable organization.

The manual comprises 10 logically related sections. Each section focuses on a set of issues that pertain to the institutional development and operation of a successful business association. Some of the sections contain a heading "Relevant Legislation"; it enables the reader to become acquainted with useful legislative rules and regulations.

In Chapter 1, "Definition of Terms", the authors provide an exhaustive definition of a business association. Chapter 2, "Identifying Needs", describes business associations' *raison d'être*. In this section, the various needs of entrepreneurs that create the demand for business associations are grouped and analyzed. Chapter 3, "Organizational Mission", defines what a mission statement is as well as why, and when, it is beneficial for an organization to formulate one. Chapter 4, "Business Association and Marketing", examines the importance of marketing for business associations. The authors strongly believe that marketing is a key element of business association management. Therefore leaders, managers, and staff must be aware of, and efficiently employ, appropriate marketing tools. In Chapter 5, "Business Association Members", the authors examine the key factor that brings business associations into existence: a business association exists to serve its members, and not *visa versa*. Chapter 6, "Services", explores the

issue of service provision to both institutional clients and members. Several examples of hypothetical and real services are provided. In Chapters 7 and 8, organizational and financial issues are analyzed as they pertain to business associations. Examples of suitable organizational and budgetary structures are given. Financial aspects, such as cash flow, are considered. In Chapter 9, "Public Relations", the authors describe this interesting management tool that is expected to yield a favorable public image of the organization. Chapter 10, "A Step Forward. Seize Opportunities", illustrates future development opportunities available to business associations. At the end of the manual, annexes provide useful reference information.

We would like to express our gratitude to everyone who helped make this manual a reality and who participates in the institutional development of business associations in Ukraine, which is not an easy job. First, we thank all those business associations that successfully operate in Ukraine and shared with us their experience and practices. The examples given in the manual were taken from the real-life experiences of real business associations; such as:

- Business Women's Association of Khmel'nytsky (Nataly Rokhova, President);
- Association of Entrepreneurs of the Baltsky District of Odesa region (Vsevolod Zakharov, President);
- Association for Facilitation of International Business and Development, Kremenchuk (Andriy Melnyk, President);
- Association of Entrepreneurs from Trostyanetchyna (Yuriy Bova, Chairman of the Board);
- Zhytomyr Regional Entrepreneurs' Association (Yuriy Voderatsky, President);
- Association of Retail Enterprises (Valentyna Mandryk, President);
- Donetsk Regional League of Professional and Business Women (Liudmyla Gorova, President);
- Business Partnership Association of the city of Kharkiv (Olga Revina, Director); and
- Sumy Territorial Association of Taxpayers (Olexander Papus, Chairman).

We regret we could not use all of the excellent examples sent to us by active business associations in Ukraine.

To the U.S. Agency for International Development, we are thankful for its financial and technical assistance.

Finally, we would like to acknowledge the help of the management and staff of BIZPRO project who helped us implement our vision for this manual.

Michael Alperovych, *Director, INTRON Consulting Firm*

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# INTRODUCTION. The Role of Business Associations in Development of Small and Medium-sized Businesses (Or, Why Is this Manual Important?)

The development of small and medium business is a driving force for economic stabilization of any country and a stimulus of its real growth. Together with other factors, small and medium business played a positive role in improvement of Ukraine's economic situation in 2000. As one illustration of that point: the 1999 SME Survey conducted by USAID indicated that small and medium enterprises together employed 12,154,138 persons. By 2001, when USAID conducted an update to that baseline figure, the employment by small and medium firms was up to 12 351 952, a 197,814 increase. At the same time, large firm employment decreased by 607,111 persons and medium by 409,293, thus indicating that the growth of small and medium sized firms was critical to absorbing the lay-offs that the economic reforms produced in the larger and medium sized firms.

To accelerate the development of small and medium-sized businesses, in addition to basic political and economic requirements, there should be a developed infrastructure for business support. This infrastructure includes business associations, business centers, non-banking institutions providing loans, and business incubators.

In most countries, business associations are a key element of entrepreneurship support. In addition, business associations are an integral part of civil society, an indicator of its ability to defend its rights and represent its interests. Both the state and the public pay great attention to development of business associations.

In the United States, for example, each fourth citizen is a member of an association and each ninth citizen participates in more than two of them. The total number of chambers of commerce – including national, regional, state, and municipal – in the United States in 2000 was 7,145, according to the American Society of Association Executives. The number of professional business associations in United States is 3,341. In Poland, there are about 1,285 professional business associations, and, in addition, 25 percent of the small and medium-sized businesses participate in them. Hungary and the Czech Republic have nearly 1,000 business associations each. Thus, in many countries entrepreneurs understand the usefulness of associations and try to solve their problems by participating in these organizations.

In contrast, the total number of officially registered business associations in Ukraine is 400-500. In addition, some associations do not actually operate – that is, the associations were created with ulterior motives: instructions “from above”, for election purposes, to receive grants, and the like. Most likely, the number of working business associations in Ukraine does not exceed 200 and therefore few entrepreneurs participate in associations.

Entrepreneurs give the following as reasons why they do not participate in professional associations or entrepreneurs' unions:

*In most countries of the world, business associations are a critical element of entrepreneurial support*

*Business associations are essential part of civil society – demonstrating the principles of self-organization, protection of rights and representation of interests*

- they do not receive practical support (53 percent);
- they do not have time to participate in the activities of an association (37 percent);
- their problems were not heard (31 percent);
- they are not aware of certain associations (25 percent);
- associations do not protect interests of their members (18 percent); and
- they are discouraged by high membership fees.

However, despite the small number of members, a lack of information, and skepticism about joining these organizations, business associations do exist that provide their members with essential assistance and support.

We asked entrepreneurs who participate in business associations whether it is worth being a member of this particular organization; what was the entrepreneur's motive in joining it; which services are most useful, and which services would the entrepreneur like to receive from the association. Members responded as follows.

A Ukrainian folk proverb illustrates why entrepreneurs become members of business associations: "If we are together, we can even beat our father". Entrepreneurs conclude that problems are solved faster and more easily by joint effort. The realization leads to the creation of voluntary organizations to support its members. The successful work of active Ukrainian business associations validates this belief.

*Business associations in Ukraine, like in other countries, do their best to facilitate the development of their members' enterprises; to disseminate information and knowledge; to create favourable environment for the development of entrepreneurship and to improve the image of entrepreneurship*

Other reasons why entrepreneurs participate in business associations include an opportunity to represent and protect their interests, to establish business contacts, and to get access to information. Business associations in Ukraine, as well as in other countries, are trying to contribute to the development of their members by obtaining and providing information and knowledge, creating a favorable environment for business development, and improving the general image of entrepreneurship.

Ukrainian business associations commonly provide services such as training, information, seminars, conferences, roundtables, market research, and assistance in establishing business contacts. However, associations also track changes in the development of a sector and react promptly by offering their members relevant new services. This may be, for example, access to the Internet, a search of specialists, or promotion of member commodities in external markets.

Specifically, information is a major product of a business association, although it may provide other services. Most associations distribute information bulletins regularly to their members; some associations publish specialized journals, thus providing their members with timely information. In addition, associations provide information in response to requests, a service that is useful to members. At the same time, an association may determine the topics of the most urgent interest for its membership and gather the relevant data, conduct regular reviews, and place this information in its bulletin.

Far from the capital and regional centers, entrepreneurs face an information vacuum. Frequently, the only source of new information is a business association, which sometimes is the only support

## Introduction.

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for small and medium-sized businesses in small towns.

Using activities such as press conferences, forums, and business fairs, associations attract attention to their towns, distribute information about its opportunities, provide examples of successful business development, and assist in establishment of personal contacts. Examples of such activities include “International Women’s Forum of Coordinated Actions”, held in Khmel’nytsky in March 2000, which was organized by the Business Women’s Association of Khmel’nytsky (Chairperson – Natalia Rokhova); International Forum of Business Associations “Through Association to Prosperity: Prospects of Development and Partnership in the 21st Century”, held by the Association of Retail Traders (President – Valentyna Mandryk) in February 2001; and International Fair Exhibition “Milky Way”, held for the fifth time in Kremenchuk and organized by the Association for Facilitation of International Business (President – Andriy Melnyk).

In activities such as these, associations demonstrate their desire and ability to cooperate with authorities constructively in developing cities and small and medium-sized businesses. Through the active participation of non-governmental organizations in advisory councils and committees created within executive authorities, associations try to influence decisions concerning entrepreneurship and to participate in the development of draft legislation and resolutions. In this way, associations demonstrate that it is better to suggest changes during the preparation of draft laws and resolutions than to try and modify or cancel decisions that have already been made.

The positive role business associations have played in development of small and medium-sized businesses is without question. However, for business associations in Ukraine to play a larger role and to represent more of the small and medium-sized business community, they need to be stronger and more efficient and to operate more professionally. In part, their low level of development stems from the fact that most of these organizations in Ukraine have operated for fewer than five years. Only a few associations (about 10 of 200) have a 10-year history. In addition, many operate under a cloud of uncertainty about their legislative status and their legal capacity to increase nontaxable revenues. This situation constrains efforts to improve the quality and quantity of services provided by business associations.

At present, most Ukrainian associations exist only because of the personal enthusiasm of their leaders or because of external funding. Associations need support, but they also need to work as efficiently as the businesses they represent. This would be a significant step in the development of Ukrainian business associations – turning them into organizations headed by professionals and managed as business entities – thus strengthening their role in the development of small and medium-sized business.

This manual is dedicated to the development of business associations. The manual is designed for:

- managers of business associations in Ukraine;
- specialists in business association development;
- people trying to make a career in the sphere of business associations;

*The potential role of Ukrainian business associations in fostering the development of small and medium business is clear, but as organizational structures they require strengthening, development and a professional attitude in order to achieve that potential*

- managers with a vision for the development of their business associations;
- entrepreneurs who would like to create a business association to tackle their problems and operate on the basis of the “right” principles; and
- people who consider efficient management to be a key element of the future organization and development of business associations in Ukraine.

There are two parts to this manual. The first part is dedicated to business association management. The second part – printed separately – deals with forms and methods of advocacy that can be used by business associations to influence the environment in which small and medium-sized businesses operate.

This manual would be most useful to people who view business associations as businesses and to those who used to work or still work in a business or have business background. As a result, business terminology is used throughout the manual.

*This book is one of only a few publications in Ukraine dedicated to business associations*

### CHAPTER 1: Definition of Terms

*“A business association is a business”.  
– consultants’ aphorism*

People are social creatures. They come together to satisfy their needs for food, security, information exchange, and distribution. The history of humanity is the history of associations. By getting together, people make inventions, generate new ideas, and create new institutions, such as governments, churches, and schools. For these same reasons, people create associations because they are engaged in similar activities and encounter similar problems. These unions stem from economic and social causes. As a rule, problems are solved more easily through joint effort. Entrepreneurs are no different – they solve their problems by uniting in organizations commonly referred to as “associations of entrepreneurs” or “business associations”.

A business association is a non-profit, voluntary association of individuals (members) who engage in entrepreneurial activities, that has been created to satisfy both individual and joint (group) needs of its members, wherein the members have no property interests with regard to the business association.

This definition is based on legislation regulating the activities of business associations, and takes into account all aspects of the activities of such organizations and how business associations compare with other organizational legal forms. Below, we analyze each component of this definition.

First, let us survey various dictionary definitions of the term “association”.

The Oxford Dictionary of Business Terms defines an association as “a group of people, departments or organizations united to achieve joint goals”. Webster’s sees associations similarly, as “[an] organization (partnership) of people with common interests”. Dahl’s Dictionary offers that an association is “a partnership, union, band, fraternity, society, community, cooperative, or team created for a certain joint purpose”.

The leaders of several business associations, when asked to define the term “business association”, offered the following additional characteristics of this entity:

A business association is a non-governmental organization, created by entrepreneurial entities to protect their rights and lobby for their interests. **Ms. Nataly Rokhova, Khmel’nytsky**

A voluntary (sometimes forced, as a result of common problems) union of entrepreneurs of different forms of ownership for protecting and lobbying their interests. **Mr. Vsevolod Zakharov, Balta**

In our opinion, a business association is a public institution that unites its members, protects their interests, and provides assistance in the search of business partners and information services. **Mr. Andriy Melnyk, Kremenchuk**

A business association is a union of entrepreneurs having common goals and interests. **Ms. Iryna Kovtun, Kharkiv**

*A business association is a non-profit, voluntary union of business persons (members), which meets both the individual and joint needs of its members, and whose members have no property interests with regard to the association*

A business association is an organization uniting entrepreneurs voluntarily and equally, to represent their interests and protect their rights in the legal, economic, social, and other spheres.

**Mr. Ihor Dyky, Zhytomyr**

*A business association is a voluntary and equal union of individuals involved in business activity*

As all these leaders pointed out, a business association is a union of individuals who engage in entrepreneurial activities. Moreover, business associations are voluntary and egalitarian in nature. Unfortunately, even this definition cannot be considered complete. An industrial concern, for example, is an association of entrepreneurial entities, too. Such a concern is not a business association. There is no doubt that organizations based on voluntary membership include political parties and charitable funds. However, they are not business associations, either.

According to the association leaders, associations emerge out of the pursuit of common goals and interests, which often involves solving common problems together. Yet all entrepreneurs face common problems, goals, and interests. For instance, two entrepreneurs, A and B, have a problem – they cannot earn enough money because of competition from the other. They also have common goals. For example, they want to make better use of each other's opportunities. Entrepreneur A may invest his personal savings in the joint business, and Entrepreneur B is ready to participate in joint activities to achieve the common goal. A's money will make profit, and B's work will generate income. Thus, for example, they decide to organize a limited liability company. It is a union of two participants – an entrepreneurial entity established to solve common problems, but this union is not a business association.

*A business association is an element of the business development infrastructure*

A business association cannot be defined merely as a union of subjects of entrepreneurial activities. To distinguish a business association from other organizations, one has to consider certain “sectoral” features, thus making a business association an element of the infrastructure that facilitates business development.

How should consulting, law, or audit firms organized in the form of a partnership (joint-stock company) be classified? They are, in a sense, associations of entrepreneurial entities created for the pursuit of common goals and interests, and to solve common problems.

*A business association is a non-profit organization*

Therefore, we must add that business associations are non-profit by nature. Fiscally speaking, business associations are not-for-profit, whereas other business entities are oriented toward profit. However even this element is not sufficient to complete our definition of business associations, since there are other non-profit organizations, such as charitable funds, political parties, and credit unions.

So, there should be some commercial motivation in business associations, but there is a difference in interpretation of what constitutes commercial activities directed toward profit. Often, these two notions are confused. “Commercial nature” connotes the desire and necessity to receive money to be used to provide services from membership fees, payment for services, and voluntary donations. In this manual, the notion of orientation toward profit is considered exclusively from the viewpoint of taxation.

For example, according to current Ukrainian law, it is not sufficient for a business association to be registered as a non-govern-

## CHAPTER 1: Definition of Terms

mental organization to receive non-profit status. The register of non-profit organizations is maintained separately by the State Tax Administration, which establishes a special code for non-profit associations.

For tax officers to determine the status of an association, a business association should first have a legal organizational form specified in the Law On Corporate Profit Tax. Under this regulation, a business association may receive a four-digit code of a non-profit organization. As a rule, these codes are 0006, 0011, or 0012. This code will help determine which revenues of the business association will be exempt from profit tax or, in specific cases, from land tax. Second, the charter documents of a business association should contain a comprehensive list of its activities. The rights of all legal entities are determined on the basis of their charter documents, so in such documents, it is not advisable to use such formulations as “other activities that are not prohibited by law” or that receive “other income”. This does not mean that associations can only collect membership dues and donations, but more specific information will aid the local tax office to distinguish between activities of legitimate organizations that will protect membership interests, from those that use non-profit tax benefits to gain an unfair competitive advantage over other enterprises. [See BIZPRO Legal Analyses #4 and #5 for more information on this topic based on the current (2001) legislative environment.]

A characteristic that sets apart business associations from other legal entities is that members of associations may not receive unequal property benefits if they have equal membership status. Nor may they receive from the business association payments other than compensation and wages.

Business associations are also unique organizations from the viewpoint of property interests. A commercial enterprise generally belongs to its owners, who have certain property interests with regard to this enterprise. Owners receive dividends by participating in income distribution. Owners also participate in the distribution of property that remains after liquidation of the enterprise. Members of business associations, however, do not have the right to shares of its property, either in the course of its activities or upon liquidation. Its property may be transferred only to other non-profit organizations of the appropriate organizational and legal form, or to a local budget where the business association is registered.

In addition, a business association provides very specific services, such as protecting the rights and representing the interests of its members.

For example, suppose the rights of Entrepreneur A have been illegally restricted by a certain controlling authority. If A hires a law firm, this firm will represent A's interests and protect A's rights. Whatever the outcome of the case, it will not create a precedent in Ukrainian law which will be binding for other courts considering similar cases. Additionally, all claims will need to be filed and considered separately. However, a business association authorized by its members to represent their interests may hire the same law firm to protect the violated rights of some or all its members. This will help distribute risks and expenditures among entrepreneurs, and in addition, the court's decision will be effective with regard to a

***Legislation on non-profit status***

***Members of business associations have no property interests with regard to the association***

*One service that significantly distinguishes a business association from other organizations is the protection of rights and lobbying members' interests*

particular business association irrespective of the number of and composition of its membership. A business association may exercise such representation and protection of its members' rights for "prevention" purposes, such as, for example, when local self-governments issue a decision that may be discriminatory for the members of the business association.

However, a commercial law firm can equally protect the rights and advocate the interests of its clients.

Finally, business associations were considered from the viewpoint of clients' (membership) needs. A business association satisfies the needs of its clients. A commercial firm satisfies the needs of its clients as well. In the next chapter, we will consider this issue in detail. Meanwhile, let us note that a business association satisfies joint, group needs of its members, whereas a consulting or law firm is oriented at satisfaction of individual clients' needs.

For the sake of justice, we can say that a business association may compete with commercial firms by offering to satisfy individual needs. Similarly, commercial firms may compete with business associations by satisfying joint, or group, needs.

*GENERAL CONCLUSION: Thus, the study of the concept of business associations, through dictionary definitions and the opinions of association leaders, leads to the conclusion that none of the above descriptions alone provides a precise definition of a business association. Taken together, however, they provide a comprehensive and full definition.*

### CHAPTER 2: Identifying Needs

Business associations are created because of the needs of certain groups, and therefore business associations have to satisfy those needs to survive.

These needs include marketing. The modern concept of marketing is based on the idea that each enterprise, institution, and organization must identify the needs of its potential clients and to offer them products or services that satisfy those needs to the fullest extent possible. **Chapter 4**, “Business Associations and Marketing”, discusses the concept of marketing more thoroughly. This chapter focuses on the need for business associations to define and the satisfy the particular needs of its members. The chapter also examines the various elements which are important to the proper identification of needs.

How can we identify an association’s needs? Where should they look for information about needs? Of course, the members of a business association themselves and its clients who apply for one-time services are the most accessible source of information. In the process of communicating with them, it is easy to discover their needs. Some of these needs we can satisfy. Others, we will have to reject because we cannot or do not want to manage them. We may have limited opportunities and won’t be able to satisfy the client’s needs properly. We may also decide we don’t have to satisfy certain needs at all. These aspects will be discussed in more detail later.

To identify member needs, one may also periodically (say, quarterly) develop questionnaires or conduct telephone surveys or interviews. This information collection does not require many resources, but associations should pay careful attention to how needs are identified and registered.

**Recording Demand.** Every manager knows that charting demand provides important information regarding the market. However, most efforts fail to measure real demand, registering apparent demand instead.

For example, an association member asks for a consultation on a legal issue with regard to an external economic contract and, simultaneously, requests a reservation for himself at an exhibition of goods and services organized by the business association. The business association does not provide legal consultations on external economic activities but gladly reserves the place at the exhibition. In several days, the pleased manager of the association finds out that 80 percent of the places at the exhibition are taken and 15 percent more are expected to be confirmed. It is unlikely that the busy employees will remember that someone needed a consultation on external economic issues. This is not all. We have lost information on existing demand.

To avoid this common mistake, one need not make large investments or radical changes in business processes. All one needs is a pencil and a sheet of paper. A computer would be useful too. Information on the needs of members or potential members should be recorded after each talk with them. Further, this information should be read through and considered – whether these needs should be satisfied, whether we can do this, and how should we do this.

*A business association is created and operates to meet needs of a certain group*

*Members’ needs should be identified and measured on a regular basis*

*When measuring needs, it is important to pay attention to the “services requested” rather than solely focus on “services provided”*

*Asking the right question  
is 9/10 of the problem*

The next “hidden danger” lies in asking the wrong question. We all know that the answer to a question depends to a great extent on the way the question is formulated. Frequently, incorrect formulations in questionnaires result in inadequate information. Surveys often include too many closed questions. As a rule, a closed question requires a “yes” or “no” answer. Closed questions are useful when there are a limited number of questions. Open questions usually begin with “what”, “who”, “where”, “how”, and “why”. It is impossible to answer questions beginning with these words simply by saying “yes” or “no”. For example, you have developed a new service and offered it but you are not satisfied with the demand for the service. You decide to find out why your clients do not request it more often. A great deal depends on the answer to this question. You may need to change this service or replace specialists who provide it, change the way you promote it, or even drop this service. That is why you want to know the opinion of association members about the service.

You decide to talk to your association members and do a survey. Let’s look at the questions you might ask and the results they produce.

“Do you like this service?” is a closed question, to which the answer could only be “yes” or “no”. You summarize answers and know only that they like or dislike the service. You can analyze, for example, which groups of your members like the service and which groups do not but nothing else. Is this information substantial enough to improve the situation? Of course not.

However, if you ask an open question, “What do you like and what don’t you like in the service?”, in addition to the respondent’s general attitude you learn valuable information about what they like or dislike about the service. Having analyzed this information, you can find out what you must change to improve the situation. Thus, if you want to find out something new, ask open questions.

Managers of business associations answered the authors’ question about the main needs of their members in the following way.

***Ms. Olga Revina, “Business Partnership Association of the city of Kharkiv”***

The members’ needs are:

- information provision (information received by association members should be exclusive and structured in accordance with their individual needs – for example, information on the search of business partners, events in a sector, etc. Individual information needs of association members are determined using social questionnaires and as a result of discussions when new members enter the association);
- presentation services, such as organization and assistance in company presentations at the association general assembly;
- organization of contact days for interested association members; placement of information on member companies in information bulletins and publications issued by the association (including websites); and
- training, such as organization of business workshops, language courses, business etiquette, and work with Internet.

***Mr. Igor Dyky, Zhytomyr Regional Entrepreneurs' Association:***

The members' needs are:

- information services;
- establishment of contacts with business partners; and
- resolution of issues with state authorities and local self-government authorities.

***Mr. Vsevolod Zakharov, Association of Entrepreneurs of the Baltsky District of Odesa region:***

The members' needs are:

- legal protection in particular situations;
- consultations on accounting and taxation issues;
- correction /cancellation/ of illegal or restrictive decisions made by local authorities;
- improving knowledge about entrepreneurship; and
- search of business partners.

***Mr. Andriy Melnyk, "Association for Facilitation of International Business and Development", Kremenchuk:***

The members' needs are:

- identification of external markets for export of products and import of raw materials or technologies;
- search of business partners for cooperation;
- quality (reliable) information on legislation of Ukraine on entrepreneurial activities;
- information on business activities (contact desks, exhibitions, forums, etc.) in Ukraine and abroad; and
- lobbying interests with executive authorities.

***Mr. Oleksander Papus, Sumy Territorial Association of Taxpayers:***

First of all, our association is trying to protect its members' rights in the areas of taxation and relations with executive authorities.

The members' needs are:

- protection of interests;
- information and consultations;
- representation of common interests with state authorities;
- lobbying; and
- experience in business development.

***Mr. Yuriy Bova, "Association of Entrepreneurs from Trostyanetchyna":***

The members' needs are:

- reliable information on changes in legislation with appropriate comments and explanations; and
- opportunity to communicate with colleagues.

Thus, the needs of members of different business associations may be grouped in the following manner.

- **protection of entrepreneur's rights:** legal protection in particular cases, fighting illegal or discriminatory actions of state officials;
- **lobbying of interests:** attempts to modify or repeal decisions of government that violate entrepreneurs' rights, influence on the process of decision making with regard to entrepreneurs' interests;
- **consultations, information:** organization of exchange of reliable information, consultations on legal and accounting issues;

*Examples of members' needs  
in various Ukrainian business  
associations*

- **partners, contacts, sharing of experience:** search for business partners, establishment of contacts, communication with colleagues, sharing of experience;
- **acting as mediators in representation of specific interests:** such as facilitation or distribution of contracts for works at the cost of local budgets;
- **knowledge, skills:** enhancement of business qualifications, organization of seminars and workshops; and
- **others.**

*A business association cannot meet every need of its members*

It should be noted that business associations do not have to satisfy ALL the needs of their members. Many factors influence which needs a business association will satisfy. In particular, these factors include of the organization's mission, whether the needs are individual or group, whether or not they relate to the target market, etc. Here are several examples:

### **Example 1.**

#### ***Acting as Mediators in the Representation of Specific Interests***

Entrepreneur A, a member of a city business association, asked the association for support in receiving a contract from a local self-government authority for work in city development. The business association successfully helped Entrepreneur A.

The interests of Entrepreneur A have been met, as he has stable income now. The interests of local self-government have also been met: the work being done is of high quality and costs less than that offered by other contractors. All the local self-government has to do is pay for the work on time. The business association is happy too because it will receive membership fees from A and improve its image among potential members. Even the civil servant who assisted the business association with the deal is happy; now he can count on a gratuity.

As for Entrepreneur B, who is also an association member, his position is worse. He got neither a contract nor support because the business association cannot negotiate two contracts for the same work. In addition, A's contract is indirectly funded by B in the form of taxes and association membership fees. Entrepreneur B is not interested in funding the business association unless control authorities create unlawful constraints on his activities. Then the association might be able to help him.

Thus, the specific interests of A contradict similar interests of B and other members of the business association able to do the same work. However, all entrepreneur members of the business association want the association to strive for maximum competition in the procedures for the procurement of contracts in the local budget. And had the association focused instead on this goal, the firm that best met the requirements of such procedures would win.

**Conclusion 1:** there are joint (group) needs common to all members. There are also individual needs. A business association cannot satisfy all needs. The priority should be group needs. As for individual needs, they have to be satisfied to the extent that they do not contradict group interests.

*Joint (group) needs should be the top priority for an association*

### Example 2.

#### *Group needs*

The most common need is for money. From time to time, association members, their occasional visitors, and staff need it. However, the authors do not know of examples of active business associations that regularly provide their members with money.

Let us consider a dialogue that took place in real life. A consultant asked a member of a business association “Does your association satisfy your needs?”

Answer: “No”.

Question: “Why not? Do you attend seminars organized by the association?”

Answer: “Yes, I do”.

Question: “Are they useful for you?”

Answer: “Yes, they are”.

Question: “Do you receive information regularly you are interested in?”

Answer: “Yes”.

Question: “Does your association satisfy your needs?”

Answer: “No”.

Question: “Why not?”

Answer: “It does not give me money”.

The desire of Entrepreneur A to get financial resources is common to all members of business associations. But associations do not have to provide their members with money because this is not their mission.

**Conclusion 2:** A business association cannot satisfy all group needs. Group needs should be satisfied to the extent that they do not contradict the goals and mission of the organization.

### Example 3.

#### *The needs of your target market*

In Odessa Oblast, there is an association of realtors. The association satisfies the group needs of its members in accordance with its mission. However, the farmers of Odessa Oblast are unlikely to join this association. And, most likely, entrepreneurs from Lviv will not consider joining the Donetsk Regional League of Professional and Business Women. The reason is not that these organizations are not quality organizations. Rather:

**Conclusion 3:** A business association cannot satisfy the needs of all businesses. Only the needs of its target market can be satisfied.

**GENERAL CONCLUSION:** *Business associations must regularly study and generalize needs of their members – both existing needs and potential needs. A business association cannot not satisfy all needs. It focuses on common group needs that exist in its target market and that correspond to the association’s mission.*

*The needs met by business associations must be consistent with its mission*

*A business association meets the needs of its target market*

## CHAPTER 3: Organizational Mission.

*If you don't care where you are going,  
it doesn't matter which way you go.  
Alice in Wonderland*

We've already seen that a business association does not meet all needs. A business association meets only those group needs of its target market that correspond to its mission. Let us try to determine what a mission is, whether it is needed, and what good it does.

A business association, like any other organization, should have a clearly stated mission. A mission, or a long-range objective, provides the *raison d'être* for every organization, its direction of activities, and the development of its capacities. To use the phrase "if you don't care where you are going to, it doesn't matter which way you go", you will also never know whether you have reached your destination. Without identifying the direction, the process of movement makes no sense.

*A mission statement is an answer to two simple questions: who are we and where are we going?*

To formulate the mission of a business association, one should answer two questions – What are we and where we are going? The answers will distinguish one organization from other, similar organizations. If we are not different from our competitors, our potential members will not be able to choose us among similar organizations. In addition, a clear determination of the mission is the basis for making strategic decisions about the organization's operation, structure, finances, and personnel.

*Which comes first – the mission or the organization?*

What emerges first, though? An organization or its mission? A review of how some business associations were established might provide an answer.

### ***Mr. Vsevolod Zakharov, Association of Entrepreneurs of the Baltsky District of Odesa region:***

The initiative of setting up an association came from a government employee, the head of the economy department of the district state administration. He carried out instructions of his superiors about the establishment of the relevant structure. To this end, he called a meeting with several "compliant" managers. But businessmen who were unhappy about the business environment also came to the meeting. A decision about setting up an association was made there – that is, a founders' meeting took place. Included on the management board were the "discontented" because the "compliant" did not need the work. Incidentally, none of the "compliant" became members of the association later on. All the work was carried out by the "discontented". Members of the labor union of market supporters, organized two years earlier (forcedly, as a result of a sharp rise in market fees), joined the association as did businessmen from different types of enterprises who joined willingly or to obtain additional services. The Association of Farmers, established in the district earlier through the administration's initiative, exists in name only. Some farmers interested in receiving services have joined our association. Today, the administration would not take the initiative in establishing our association because it is "inconvenient" for them.

**Mr. Andriy Melnyk, “Association for Facilitation of International Business and Development”, Kremenchuk:**

The association was set up in 1996 on the initiative of Mayor Ivan Ponomarenko and Director General of the Center of Slovak Economy and Culture in Ukraine, Andriy Melnyk. The development of conditions that promote the city’s international economic, cultural, and scientific links was determined as the main objective of the association.

**Ms. Olga Revina, “Business Partnership Association of the city of Kharkiv”:**

The Business Partnership Association was established on the initiative of 10 founders-businessmen and heads of companies – to satisfy the following needs:

- information exchange;
- communication;
- promotion of company development by European standards (the association has volunteer consultants from West European countries. One of the association founders is an E.U. consultant for East European countries); and
- international partnership promotion (among the association executive office staff are people who have many years of experience in international economic relations and broad international contacts and speak several foreign languages).

More often than not, business associations, like commercial organizations, are created as tools to address certain issues or to realize leaders’ personal ambitions. Sometimes, a business association is created on the eve of elections as a tool in an election campaign. There are cases when, in creating this tool, greater emphasis is placed the actual creation of the business association than on its purpose and activities. We have had an opportunity to participate in many dialogues of the following type:

A business association leader (L): “In the course of the business association’s development we found that we needed a charitable foundation. How can we register a charitable foundation?”

Consultants (C): “Why do you need a charitable foundation?”

L: “What do you mean? We have a business association, and we also need a charitable foundation”.

C: “Aren’t you satisfied with the current status of your business association?”

L: “We need to receive money without having to pay taxes”.

C: “But why do you also need a charitable foundation? What additional needs of current or potential members are you trying to meet with the help of a charitable foundation?”

The consultants’ questions remain unanswered because the association’s leader thinks only about form, not substance. He does not care about the substance. His so-called charitable foundation is a certain structure, but it lacks meaningful purpose.

This kind of reasoning is common. In this sense, the creation of a business association does not differ much from the creation of a regular commercial organization. Often, organizations develop without thinking about a mission. Some say it is not essential at this stage. However, it is impossible to succeed or even to survive in the market without any mission at this stage of organizational development.

*Substance first, form second.*

Imagine the following situation. Somebody is unhappy with the salary he receives at an enterprise as a worker and, being ambitious, decides to start his own business. After thinking about it, he decides to open a small coffee shop next to some offices. Little by little, the business grows. Clients from the nearby offices like to visit the coffee shop, even to make appointments there. Everything looks fine. Ask this entrepreneur at this moment: “What drives him, what is his mission?” Most probably, he will not have an answer or will say something like “to make money”. As time passes, this entrepreneur makes enough money to live on and even can save some. However, he thinks he can make more money. He decides to expand his business by adding a kitchen, to provide clients not only with coffee and pastries but also with snacks and sandwiches.

Little by little, this coffee shop has turned into a small restaurant. However, this area already has several bistros and restaurants. One more restaurant results in reduced sales for each, and his competitors react by lowering their prices and increased advertising and marketing. Suddenly, the owner of the small restaurant realizes that increasing capital by two times will not lead to a relevant increase of sales or income. In other words, the external environment limits business development. And now he must ask, “Where am I heading, and how?” Maybe he should change the food offered, or perhaps the cafe needs to extend its hours, or perhaps to turn the restaurant into a nightclub or casino, or maybe he needs simply to leave this area? Small business owners usually do not think about such questions, but his business can’t grow until he does.

*A mission statement is changed from time to time, in response to a changing environment or changes within the organization itself*

Conclusion: the reason for formulating (or revising) a mission is change in a business or in the external environment.

A mission statement is not permanent and can change from time to time. For instance, here is how the mission of the Business Women’s Association of Khmel’nitsky changed.

Previous Mission Statement: Promotion of economic, social, and psychological adaptation of women of Khmel’nytsky region to today’s environment and the development of conditions for enhancing women’s roles in society.

As a result of environmental change and extensive knowledge of members’ needs, the association established different priorities, and the target market was narrowed.

Current Mission Statement: Legal, consulting, and information support of businesswomen of Khmel’nytsky region for effective promotion of their businesses.

As with driving a car, as long as the changes in a business association’s mission are minor, they are controlled by a slight turn of the wheel – that is, a small adjustment in the organization’s purpose. But as soon as the road, or external environment, curves or changes, we have to slow down, shift gears, and possibly even change the car, or mission, for a more suitable one.

A similar process takes place in the world of commercial organizations. The IBM company used to be the undisputed international leader in the computer market. The words “computer” and “IBM” were synonyms to most people. In the early 1970s, however, the development of new technologies resulted in the appearance of

## CHAPTER 3: Organizational Mission.

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microprocessors. This allowed the production of small and inexpensive computers. To most people in the large corporation, these new machines resembled children's toys. IBM did not understand those changes. As a result, it lost its leadership in the market. In the minds of most people, the word computer is no longer associated only with IBM.

Important changes in the environment may require only cosmetic changes. Probably, more public relations will be required or responsibilities will have to be redistributed. Sometimes, it is necessary to recruit more people or, vice versa, to reduce staff size. But this may not be sufficient where changes in the environment are profound. In such a situation, the leadership of an organization may need to implement drastic changes, and, in particular, its mission may need to be revised.

Organizations change. Members of organizations change, its central staff changes, and people change. A car can break down or run out of fuel. An organization can have a conflict or run out of funds. An organization can easily make minor changes. Many different methods can be used to neutralize a conflict – additional funds can be earned by intensifying marketing efforts or spending more carefully or by using volunteers more intensively. However, problems can arise that are impossible to eliminate from within. So, solving these problems will take a lot of thinking, including changing the mission.

An organization's mission is frequently formulated based on quotations from statutory documents. The mission does not need to be written in statutory documents. It might even be harmful to do so because a change of mission would require re-registration. Another mistake is to formulate the mission in terms of "protection of rights" or "representation of interests". "Protection of rights" is not an object; it is a process or a tool. If we take protection of rights as an object, ensuring the organization's long-term survival requires that rights need to have continuous protection. Otherwise, the organization's existence makes no sense. In other words, for a business association to be successful, the rights of its clients must be violated continuously. It is unlikely that this is what members and clients are want.

Finally, there are no right or wrong mission statements. But we can draw these conclusions.

**GENERAL CONCLUSIONS:** *A business association, just as any other organization, has a mission. A mission should be adaptable, and may be adjusted to respond to internal and external changes.*

*The mission should not be confused with targets and goals listed in the organization's statutes, or with statements such as "Protection of Rights" or "Representation of Interests"*

## CHAPTER 4: Business Associations and Marketing

*A business association can not satisfy all needs*

This chapter discusses whose needs a business association should meet. In marketing terminology, this is a “target market”.

Does marketing have anything to do with business associations? Those who think not should read this chapter very carefully. Those who think that business associations and marketing have some association also should read this chapter carefully. Only those who are confident that marketing is a direct concern of business associations may read this chapter quickly.

Unlike commercial enterprises, business associations try to achieve the highest level of revenue, not for profits, but to provide service at the highest standard to the selected sector, profession, or category of individuals (organizations) whose interests the business association presents. Revenue is not the association’s ultimate goal or its mission. It is only one instrument to achieve established goals. Success is impossible without revenue.

*A business association is a business, and therefore marketing is important*

To be successful, a business association needs to make marketing decisions the same way any other commercial entity does. The difference lies in the goals each has. Whereas commercial firms want bigger profits, business associations perceive profit as a tool to achieve their goals. Increased income for the association may mean that satisfying the demands of a specific group comes more easily.

Marketing decisions are some of the most significant decisions organizations make. It is primarily through marketing that organizations determine their activities. The contemporary marketing concept, as a rule, includes identification of the needs of target markets for products and services and then satisfying those needs in accordance with the mission of the organization. Everything that takes place between a business association and its market involves some marketing process. Generally, basic marketing processes include the following:

### 1. Identifying your target market and its segments

A market for a business association is made up of those who may become its members or clients – most often, these are entrepreneurs. The target market is a portion of the larger market whose needs a business association serves.

The name or mission of the association sometimes defines its target market – for example, the Association of Entrepreneurs from Trostyanetchyna. The target market of this association covers business people residing or operating in the geographic area around Tryostyanets. Further, one should define needs of the target market or its segment. A successful business association is built on an adequate definition of needs. Ill-defined needs may cause the organization to fail; that is why it is critically important to attract all accessible resources to define needs correctly. This element of association life is discussed in detail in **Chapter 2**.

## CHAPTER 4: Business Association and Marketing

Markets are diverse. They include private sole proprietors from Transcarpathia and gigantic steel mills from Donetsk region. These firms may not have many problems in common. However, the purpose of a business association is to address common problems its members face. Therefore, a relevant approach requires that we divide the market into relatively homogeneous segments. A market segment is a portion of the market – that is, those elements that have similar characteristics. A set of similar properties of the market will define a characteristic of a segment or segmentation criteria.

For purposes of segmentation, the size of firms allows us to distinguish between segments of private sole proprietors – small, medium-sized, and large enterprises. If we take city districts as one segment, the city of Donetsk will have segments of Voroshilovsky, Kalininsky, Kyivsky, and other districts.

The segmentation process for a business association is simpler. Frequently, the definition of a target market is included in the proper name of the association or in its mission. However, a name can provide only general information. For example, potential members of the Business Women's Association of Khmel'nitsky are women who operate their own businesses or who are trying to have their own firms. So women who do not want to own firms cannot be considered potential members of the association.

A business association needs to understand parameters and the segments of its market. A market can be segmented by many different qualities, but above all, segments should be useful. For more detail about segments, please, see the section on Useful Segments, below.

### 2. Defining needs in target markets

It is critical to define needs in target markets in the process of marketing planning. Markets are diverse. That is why needs may vary from segment to segment. For example, the issue of market tax is never a concern of large businesses unless they own the market. A business association needs to use all available sources of information to separate and group the principal needs of each segment of the target market.

### 3. Creating products and services for target markets

Let's assume we have defined markets and identified needs. It is time for production decisions because the manufacturing of a product or providing a service is a production process. Yet production decisions taken in response to adequately identified needs will not ensure success. For example, our clients may need legal protection, so we decide to offer legal advice to them. However, this does not mean that our services will be appreciated in the market. Clients may refuse to buy this service from us and turn to our competitors.

While making production decisions, one should take into account how this product will be sold and then customize it to improve its marketability. Below is a discussion of the creation of products and services.

*Basic marketing processes include the determination of markets and segments, needs, developing services to meet those needs, pricing, promotion and analysis*

### 4. Pricing products and services for chosen markets and segments

Pricing is not a financial or economic decision; it is purely a marketing decision. In the past, most enterprises determined their prices as “cost plus profit”. Today, however, this approach has become outdated. A contemporary pricing concept says that price is based on marketing information in the light of product or service destination, and then costs are fine-tuned to produce a profit. In other words, a product or service price is the value the majority of clients in the target market are willing to pay.

As an example, let’s consider a publication issued by business association. The cost of publication is, for instance, 10 UAH per copy.

*Scenario one.* The publication is in sufficient demand in the market. We decide the publication could generate a profit for us and set a price of 15 UAH per copy. In this way, we would earn 5 UAH on each copy that has been sold.

*Scenario two.* The publication is not in high demand in the market. We cannot establish a price for it because no one would want to pay for it. However, we could use this publication to publicize activities of the association or for advertising. In this case, we would need to distribute the publication free of charge and would only receive intangible benefits in exchange. We would incur the full cost of production, or 10 UAH per copy.

### 5. Identifying promotion and distribution methods for products and services

Now we have a product or service with a price. It is time to sell it. A product or service has to reach its clients. First, we need to provide clients and intermediaries with the relevant information on products and services; then, we need to convince clients to buy our products and encourage intermediaries to sell them to new clients. Products and services must be affordable for all these categories. You could distribute information via mass media, conventional mail, or e-mail, through personal direct contacts and exhibitions or seminars, and by any other means necessary to organize the sale of product or service in sufficient quantities.

### 6. Analyzing, Assessing, and Planning

Analysis, assessment, and planning are critical to monitoring the market’s reaction to our product. A quality analysis requires accurate and reliable data. These data may be provided by financial statements (reflecting sales volume of products in money terms) or production reports (conveying sales volume of products and services in natural values).

Once we have these data, we can reach various conclusions:

- How clients perceive our services and what amount of services the market may consume;
- How we could improve our services; and
- How our clients receive information on our services.

Analyzing information on promotion channels enables us to focus on the most effective promotion channels and drop ineffective

ones. In addition, this information enables us to see how segments for which the product or service was designated buy it.

The simplest way is to ask each client contacting the association, How did you learn about us or our service? Having analyzed responses, you conclude, for example, that placing an advertisement in newspaper “A” on Tuesday is twice as good and cheap as advertising on Thursday in newspaper “B”. This information would contribute to cost-effectiveness and reduce promotion expense.

If a product or service does not do well in the market, it means that your marketing assumptions were wrong or that your competitors outdid you. Whatever the reason, you should revise your marketing plans; change your promotion strategy; change your product positioning; lower the price; or, in the worst-case scenario, exit the market.

Concerning target markets, it is important to distinguish potential clients from the rest of consumers to focus on those who might want to buy the product or service. For example, a business association may have the status of an oblast association. Thus, a marketing program aimed at reaching new clients from neighboring oblasts may not be successful.

Or, we publish an advertisement in local press recruiting potential members of our organization (local small businesses) to attend a seminar (20-25 members from our town) on legal protection for business people from unlawful sanctions of inspection bodies. If this advertisement appears in a newspaper that business owners do not read, it will fail to attract attention. Or, under a different scenario, we use an enormous amount of money to advertise this seminar on “Inter” television channel, which has a national coverage. Although we make our seminar known to the vast majority of people, we have wasted our financial resources because few viewers are likely to become our clients.

Useful segmentation has specific features. Useful segments must have the following characteristics:

**Measurability** – size of segments and characteristics of segments that may be measured and assessed. Lack of segment measures makes it impossible to distinguish one segment from another. Lack of measurement information on a segment makes the development of marketing programs unfeasible.

**Meaningfulness** – segments should be sufficiently large and profitable so that it makes sense to serve them. One should consider, in thinking about developing a product or service for very small segments or a segment, whether it would be impossible to earn sufficient profit. If the answer is yes, it would be crucial to receive some other types of income, such as positive publicity or strategic benefits. If a segment was very small, there would be no way to develop operations.

For example, there are 20 business owners in a selected segment; they are our potential members. We are about to offer them legal services, and we assume they would pay no more than 10 UAH per month. Thus, even if we achieve 100 percent sales in this target market (which is practically impossible), we could earn no more than 200 UAH a month. In fact, this amount would probably not

*Market segmentation is helpful for creating effective marketing strategies*

exceed 50 UAH per month in the first months of operation. Would this revenue be enough to pay a good lawyer? Will this be sufficient to allow promotion of the product? Is it worthwhile for us to be in this segment with the product?

**Accessibility** – a very important parameter is to be able to reach and service our clients. Sometimes, we have to drop important markets because we cannot ensure quality services for our clients in them. The distance may be too great or communication channels may be lacking. If we offer legal support to the poorest businesses – for instance, in a town near Cherkasy – and have only one office in this town, can we provide this service, say, in a Hutsul village somewhere in the Carpathians? The earnings we would receive would not be enough for a train ticket.

*Providing services that are differentiated from those of competitors is important*

**Differentiation** – segments react in their own ways to the components of our marketing strategies. Presumably, we offer the same product – legal advice – to clients from different segments. One segment is made up of successful business people who have a strong foothold in the market and can afford our services. Another segment may include start-up businesses with very scarce financial resources. If we offer this product to both sectors at the same price, we probably would lose those clients who may not afford this price. If we offer a lower price, we would lose money because we would receive less from clients who could afford to pay more. It would make more sense to differentiate these two segments and offer them different products at different prices. We need to offer quality or equally valuable items for the more expensive market segment, while our offering to the start-up business segment should focus on price.

For the client to buy our product or service, we have to make it distinguishable from competitors' products or services. In other words, a business association's product or service has to be perceived as different in the selected target market.

Thus, the difference of our product should be important for clients. If we offer cheap legal service when clients want quality legal service, we are providing the wrong thing.

The difference must have some **specialty**. Competitors either do not offer these products or offer something different. If our product has nothing special, the client will not be able to tell our product from other similar ones and will buy a competitor's product. In the above example of the legal service, this specialty may be, for example, accessibility of the service or the convenient way of receiving it. To receive services of a law firm, a client has to sign a service agreement every time or arrange a special payment, the size of which would not be predictable in advance. In our service, the procedure would be simplified – a client pays once a month and receives as much advice as he needs.

The difference must be valuable for client and must give the client a certain advantage. In our example, the client will be better off because, in addition to more frequent advice, he will have simplified payment arrangements.

To **describe** to our potential client why our service is better than the others, we must stress the difference between services. For example, we might be holding an on-site seminar on issues related to legislation. Many business associations arrange similar seminars. On the same day, another local business association gives a similar seminar in neighboring premises. We need to understand a difference between the two seminars to be able to explain to our members and clients why they should attend our seminar. We decide, as a joke, that the difference is the chemical content of paint used in our premises. We know that this would not convince clients. So we will have to make an argument that our clients perceive as relevant to them. This may include the level of organization of the seminar or that we offer more skillful facilitators, that we will have handouts available that are of high quality, or even that our price is lower.

Does this give us an **advantage**? If our service's only advantage is price – 10 UAH per month against the competitor's price 11 UAH per month – then, the following day, our competitor may want to offer the same service at 9.50 UAH per month and we would lose our advantage. Concerning legal services, an advantage must be a unique difference – for example, quality.

Whether a client can **afford** it – the difference must be valuable for the client, and he would pay for it because he expects advantages from buying the product. If quality or accessibility of the service provided is not important for the client, we would not achieve anything by selling “quality and accessibility”. We must be sure that the client values quality, and he would certainly appreciate accessibility while receiving our service.

Whether it provides **profit** – if this is the difference, we would earn more than we spend. When we improve accessibility of service for a client, we would incur additional expenses. We would think the service over, pay the lawyer, deliver information to clients, convince them to buy this service, etc. Finally, all of this will provide benefits, including profits, increased number of satisfied clients, and improved image or a social effect.

Now, let's look at a real-life example.

The Business Club (Cherkassy) regularly arranges roundtable meetings for its actual and potential members with high-ranking officials of oblast state administration, city administration, and tax inspectorate.

You ask, What is the difference between the Business Club and other associations? The difference is that because of the authority this association, officials from city and oblast government attend its events. So, what we have here is an important difference:

- Other business associations do not do anything of the kind;
- The difference is meaningful for clients. They have opportunities to talk informally with oblast officials, and this is something they need; and
- They may perceive the difference, because it is clear and transparent.

As a result, members of the association accept this service with pleasure and pay membership fees.

And finally, let's look at some parameters of target markets every business association has to define for itself.

***Example: Business Club (Cherkassy) carries out, on a regular basis, round table discussions for its members and potential members with officials from oblast state administration and tax inspection***

## Business Association Management

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It is crucial to estimate market size and capacity – that is, number of potential clients and amount of money the potential clients spend or may spend in their market. This information is not always available. It, however, can be estimated by surveying potential and current clients.

In addition to information on the market, it is important to assess main competitors that work in this or adjacent markets. It would be important to focus on market of competitors, which:

- Are similar to ours by current and expected future size;
- Are similar to us by current and expected future influence;
- Occupy or try to capture similar market share;
- Offer similar quality services; and
- Use marketing strategies similar to ours.

The availability of this information would help a business association more accurately plan its steps and be more successful in attracting new members through better quality business services.

***GENERAL CONCLUSION: A business association may not satisfy everyone's needs. A business association focuses on the needs of its members and clients who belong to its target market.***

### CHAPTER 5: Business Association Members

*Business associations exist for their members*

To fulfill its objectives, business associations provide certain services. As a rule, these services are geared toward satisfying the needs of business association members. Most business associations face serious problems in developing and maintaining their membership base. Therefore, it is essential to answer the question, “Why become a business association member?”

In one way, a business association is much better off if it is built on a mandatory membership. For example, auditors and assessors must belong to certified professional organizations. As for voluntary membership, the situation is not that simple. Many business association leaders complain that clients are hesitant to join their associations. However, they forget that a client’s choice – whether to join this or another association – does not differ from the choice a buyer has when purchasing a product or service.

There are a few simple reasons for joining a business association. As a rule, they are as follows:

- Products or services provided by the association;
- Prestige and pride resulting from membership in an association that has a good image;
- Personal reasons such as good relations with persons responsible for recruiting new members and the desire to be no worse than the others; and
- Membership advantages, including professional, business, and communication.

Thus, clients become business association members because they believe that the business association will most likely satisfy their needs or resolve certain problems.

People responsible for maintaining the association’s member base are on the front line of communication with the clients. Therefore, they must keep asking themselves four questions:

**Question 1. Why did this client become the member of our business association?**

The above-mentioned reasons why clients join business associations are vague. We need clear answers to these questions: Why did the client believe the association would help him or her? How did we determine the client’s problem? How did we make the client realize the need to address this problem? A thorough analysis will help us focus on the most effective methods for increasing the membership and help us reject ineffective ones.

*For example, the Director of the firm “Dilo”, Natalya Petrivna Andriyva, joined the Business Women’s Association of Khmel’nytsky because, being new to business, she needed to know how to manage her business properly, including how to establish fruitful relationships with employees. In addition, she wanted to find like-minded persons in the professional environment. Having read in a newspaper about the activities and services of the association, she visited the association and talked to its employees. Ever since that time, she has been a member.*

*Entrepreneurs will become members of business associations, if they believe that the association can meet their needs or help resolve their problems*

Her major reasons for joining the association were the existence of certain problems, information published in a newspaper, and communication with the association's employees. These are good reasons, but are not always present. Therefore, let us consider the next question.

**Question 2. *Why didn't this client become a member of our business association?***

As a rule, business associations do not record the reasons a client does not become a member. However, the findings of an opinion poll highlight the following reasons why entrepreneurs are reluctant to join business associations:

- they do not receive practical assistance;
- they lack time;
- their problems are not addressed;
- they do not know about the existence of business associations that could meet their needs; and
- the membership fee is too high.

This list can be longer, but in general the client will refuse to join the business association if the advantages offered by the membership do not correspond to his or her expectations or the price for membership is too high. Each case of refusal to join the association must be thoroughly analyzed to take the appropriate correction measures. For example, the association can offer more advantages for the client by upgrading its own products or services and by revising its price and its promotion methods.

Considering the results of the analysis and introducing the required changes increase the probability of potential clients joining the association. However, now we have to keep them and, accordingly, thus have to answer the following question frankly:

**Question 3. *Why do members stay in the association?***

Clients stay in a business association if it satisfies their needs or helps resolve certain problems. In this case, benefits resulting from membership should not be less than the membership fee. The Business Women's Association of Khmel'nytsky provides an example:

*The director of the firm "Dilo", Natalya Petrivna Andriyva, stays in the association because she sees continuous progress of the association, regularly receives required information, attends seminars conducted by the association, and can advance herself as a personality. She can communicate with like-minded women who have their own businesses.*

Thus, the reasons for staying in the association are the continuous receipt of the required information, the prestige of being a member of a certain circle, and the possibility of self-realization.

This time we will focus on those who quit the association, and, accordingly, let us consider the next question:

**Question 4. *Why do members leave the association?***

Members leave business associations if they feel offended; if they

## CHAPTER 5: Business Association Members

lose confidence in the association, its leader, or products; or when membership advantages cease to be evident or prove inadequate as compared with the membership fee.

Since the membership base of the business association is the most precious asset, it is very important to constantly keep track of members' attitudes. Business associations should strive to attract the utmost of potential clients and do their best to keep them.

Business association should continuously track and promptly react to any changes in the needs of its members. This requires regular communication with the association members, both informal (personal interviews, telephone sales calls) and formal (questionnaires, surveys). Communication with organization members only about the payment of membership fees is unlikely to strengthen the association.

From a legal standpoint, members of business associations have no distinct corporate rights to its assets. It, therefore, would be very difficult to distinguish members from purchasers of a business association services or its donors, which make contributions or serve as members of the association board. Members of a business association will be understood as persons who provide resources in exchange for the services and who take part in the operations of its management bodies. According to legislation, major issues concerning the operations of a business association must be resolved by the general meeting of members or their authorized representatives. However, such participation is voluntary. Therefore, a concern arises that membership in a business association may in no way be defined from legal principles alone.

The majority of business associations, while defining their members, should rely on payment of membership fees. Ukrainian legislation does to some extent regulate eligibility of members of business associations. Thus, organizations of employers, referred to in the relevant law as a "public organizations", may have among their members any business owners, irrespective of the form of ownership, profile, and sector, or a duly authorized body. Employers may also include individuals – entrepreneurs – who have hired employees.

Particularly, legislation on employer organizations stipulates the following guarantees for members of business associations:

- Business people shall not be forced to join business associations or have their rights restricted as a result of their membership or lack of membership in certain business associations.
- Any member of a business association may leave it any time, in the procedure prescribed by the association's statute.
- All members of a business association have equal rights in addressing issues regarding its operations, irrespective of their status, property state, wealth, performance results, or any other characteristics.
- Members of a business association may receive full information on its operations timely and have access to information on such operations.
- Member can seek redress in court in cases where their rights are violated as a result of business association performing activities in violation of its statute (the court may schedule a date for election of business association's governance bodies and/or terminate operations of the business association until the court deci-

*Legislation on business association membership*

*Membership is limited to those who pay dues*

sion is enforced. Therefore, this provision seems to, on the one hand, protect rights of business associations' members, but, on the other hand, it allows the termination of operations of "inconvenient" business associations on legitimate grounds).

These provisions on membership may be generally applied to other business associations.

Legislation, however, does not regulate responsibilities of business association members, except for compliance with the statute and payment of fees, if the statute mandates it. In practice, one can distinguish additional responsibilities of business association members, including fulfilling decisions of governance bodies; submitting information required to achieve goals of the organization; promoting ideas, goals, and operations of the organization; and taking part in operations of the business association personally or through a representative. In principle, these responsibilities could be laid out not in the statute but in the rules of conduct or the code of ethics of members in individual business association.

There often arises the question of whether legal entities are eligible to join business associations. Articles 12 and 16 of the Law of Ukraine on Associations of Individuals stipulates that, in cases provided for by legislation, members of public organizations may include collective members (the law does not specify which), while organizations themselves may set up unions of public organizations.

Evidently, the form of public organization is the most convenient for individual entrepreneurs/sole proprietors, but it may be as easily utilized by legal entities, registered as subjects of business activity. This conclusion derives from the text of the above-mentioned resolutions of the Constitutional Court and Convention of International Labour Organization (UN) #87, which concern the status of entrepreneurs' associations and are statutory documents of direct effect.

Finally, paragraph "e" of point 7.11.1 of the Law of Ukraine "On Profit Tax" (Corporate Tax) refers to associations of legal entities as a type of non-for-profit organizations, set up exclusively to represent interests of their members and involved in no commercial/business operations. These associations may have only legal entities as their members, or businesses of various types, and thus will be subject to regulation not only by the Law On Enterprises but also by all mentioned-above legislation.

***GENERAL CONCLUSION: A business association exists for its members and clients and tries to satisfy their needs appropriately.***

### CHAPTER 6: Services

#### *Business associations provide certain services*

Often, in comparing two business associations, we use only two numbers. The first is the number of business association members. One assumes that the more members an association has, the stronger it is. However, we should not be misled by this indicator because the number of members in different organizations may vary. Some associations have only a handful of members, whereas there are other associations whose leaders talk about hundreds of thousand members (the quantity comparable with the total number of business people in Ukraine).

The former may refer to the number of members who regularly pay membership fees. Associations that are in demand regularly collect membership fees. Associations that serve only their leaders who boast regularly about the size of the member base do not collect membership fees from each professing member.

Most frequently, this is explained by the members' low ability to pay (membership fees rarely exceeds 10 UAH per month, and, at times, it is only 1 UAH). Everyone in business typically counts his or her money with care. Business persons pay only for things they really need. If a business person considers it irrational to spend 10 UAH per month, it means he or she does not need the service.

Therefore, we should look at what membership is from the perspective of a business association and its members – that is, what is offered and what should be offered.

The ***Business Women's Association of Khmel'nytsky*** defines membership as a legal relationship between association and its members, implying the provision of certain services by the association to its members in exchange for their membership fees. Thus, membership in this example is an agreement according to which the business association does something for its members, and in exchange the members pay membership fees.

Thus for a business association, membership – its support and development – ***is a goal***. A business association realizes its mission by offering products and services to its members. Of course, it could provide its services to clients that are not members; however, to be successful in the long run, it is better to have permanent clients than users of services only one time.

Membership for a business association is also ***a prerequisite for its financial success and development***. The more members that pay their fees regularly, the greater the resources the association has.

Finally, a business association treats membership as a marketing tool; this is only ***a means to promote the association's services and products***.

If, for example, clients of a business association need access to legal information, they could receive it by paying a one-time fee. This is the way law firms and consulting firms charge for their services. Prices for these services are high. A business association, having considered needs of its target market made up of 20 businesses, finds out that they need almost permanent access to legal informa-

***Membership for business associations is the goal, the basis for financial success and its purpose in providing goods and services***

tion but may not be able to afford the high rates charged by law firms. The business association sets its fees so all potential consumers of this information can afford it and gives them access to the file of legal and regulatory documents. This also works the other way around. Numerous law firms, auditing firms, and consulting firms promote their services in exchange for subscription - a regular monthly or quarterly payment.

Now, let's see what membership is for a business association client.

*For a member, membership is a way to meet their needs, to increase the prestige of their business and a source of additional advantages*

Membership for a client is a way to *satisfy his or her need and find a solution to a problem*. The client may want products and services offered by the business association. When members of associations are small businesses, for example, their sales are not significant and they cannot afford to subscribe to legal and regulatory documents (20-30 UAH per month) or to keep a lawyer on staff. If an association has at least 200 of these members and they pay membership fees of 5 UAH per month, the business association would have a monthly cash flow of 1,000 UAH if all members pay their fees regularly. This amount would be sufficient to subscribe to much larger amount of special literature and would cover the cost of access to files of such information, even the cost of production of a few copies.

In addition, membership for a client is a way to *enhance his or her prestige* (provided the association has sufficiently prominent prestige). Clients would try to remain as members in the business association to maintain their own image.

Membership for a client also means receiving *additional benefits*. These may be professional benefits (in associations, structured by professional characteristics), or the benefit of having business relationships with other members of association. Clients would maintain membership in the association to preserve old and to build new business relations.

It is important to realize that, from a marketing standpoint, membership for a business association is a way to promote its products and services. In other words, membership is a specific service.

Now, it is time to consider what services members and clients should be offered.

**Important note.** This discussion assumes that whenever we discuss financial aspects of a Ukrainian business association it has found a legal way to provide services, collect revenues from its members, and maintain its non-profit status. This issue is discussed in more detail in BIZPRO Legal Analyses #4 and #5.

**Chapter 2** discusses what clients in potential markets need. The following discussion elaborates on the material in that chapter and provides examples of services that may satisfy clients and members.

### 1. Developing an Information Service

As we saw in **Chapter 2**, crucial client needs include accurate and reliable information exchange, legal and accounting advice, improvement of business skills, arrangement of seminars, and training. So let us try to describe an information product that would be in demand with our clients. Assume that our business association operates in a small town and unites 100 small business

#### Information Services

owners. After a careful study, we learned that our clients have an acute need for information on legislation and taxation. Although specialized newspapers and magazines contain most of this information, a majority of association members cannot afford subscriptions to these publications (50 UAH per month). Having analyzed marketing information with regard to the target market, we concluded that the maximum amount a member of our association could afford for the appropriate information is 10 UAH per month. However, information on these issues is plentiful so it is critical to review and process it, highlighting relevant material. Finally, everything we have selected must be delivered to our clients. We decide that we will provide our clients with carbon copies of the relevant material twice a month. The information package would have 10 pages. So, to ensure quality of our service, we will have to do the following:

- Subscribe to the relevant publications (50 UAH per month);
- Have a dedicated staff member who would reads through all the press and highlights crucial and helpful material (part-time job, 2 hours a day, at 300 UAH salary including surcharges);
- Have facilities to make 100 copies of the relevant material (10 page information package, twice a month, 100 packages give us 2,000 pages. If we order carbon copies from a commercial firm, we would spend 10 kopeks for a page, and it would cost us with 200 UAH per month); and
- Have resources to deliver information packages at the clients' addresses (we could use mail, and it would cost us, say, 1 UAH per a package. The cost of delivery would be 20 to 200 UAH per month).

For purpose of simplicity, we are not taking into account the cost of office maintenance, full-time employees, and the like. Now we see that having spent 750 UAH per month, we would be able to send up-to-date and full information on changes in legislation to 100 clients. Having fixed the size of membership fees at 10 UAH per month (under the condition of 100 percent collection), we collect an additional 250 UAH, more than we spent. Naturally, this will not be a net gain because we would have to spend money to maintain the office, pay wages to administrative staff, etc. However, it is likely that this frequent and full communication by the association with its members would strengthen our client base. Eventually, we could supplement every second package with a reminder to pay membership fees.

**Summary.** In this example, we have built a member service, which is provided twice a month to all members of the association in exchange for payment of their membership fees.

### 2. Developing Networking Services

Using the example of the same business association with the same 10-page information package on legal and taxation changes, mailed directly, at the same costs with the same revenue, we now will try to expand our packages to include several additional pages. These pages would contain information on business contacts, which members of business association need or may want to have. As for the information from members – since all costs of package have been covered – one line of advertisement from an association member would be placed free of charge, but the member would pay for additional lines and for graphic design. As our association is new to the advertising market where competition is intense, we decide to establish a negligible price at 1 UAH per line. Additional graphic design will be offered for a little higher price of 2 UAH. Let's try to estimate the size of new market. We have 100 members.

#### *Networking Services*

Presumably, they will place free advertisements, nearly half of them would ask for additional line, and 30 percent would request two additional lines or graphic design. Then, additional cash inflow would total  $(50+30 \cdot 2) \cdot 2=220$  UAH per month. We would have additional expenses. We would need to make copies of 3 additional pages. So, the cost of copying would grow by at least 30 percent and would total 60 UAH. We would also need to increase labor cost of the staff member in charge of making copies, and give him an additional 40 UAH per month, which would cost us 60 UAH (wage plus charges). So, cash revenues even with this minimum price for advertising would grow by at least 60 UAH.

**Summary.** In this example, we have built a service, which is an expansion of the existing service but it helps to satisfy additional needs of clients and to improve financial state of business association.

### 3. Developing a Communication and Shared Experience Service

#### Informal Networking Services

A business breakfast is regularly offered by the Association of Retailers (Kyiv). Members of the association get together for a breakfast arranged in premises owned by a member. These may include a cafe or an office. This service is free for members of the association; they pay only for the cost of food. Members enjoy communication, exchange important information on issues of interest, share experiences, and work out solutions to common problems. During these meetings, they also receive information on the current activities of the association and discuss plans for future. Since this service is perceived as very useful, members pay membership fees eagerly. The association fulfills its mission and facilitates free informal communication.

**Summary.** This is an example of a regular service that is made available to all members of business association and that contributes to strengthening the relationship between members and the association and improving its prestige.

### 4. Building a Training Service

#### Training Services

All associations have arranged seminars at least once, or they plan to in future. In essence, the business association provides an opportunity to its members or clients to receive knowledge in a particular form, to exchange information, or to share experiences. For example, a business association from a small town, having thoroughly studied the needs of its 100 clients, found out that the majority of business owners did not know what promissory notes are and therefore were not able to use them. We decide to arrange a seminar in which we would discuss centrally important issues in the turnover of bills. Having given it a bit of thought, we contact a city club and negotiate to rent a conference hall of 500 seats for 4 hours. For the seminar, we would need the following speakers:

- A lawyer specializing in bills;
- A representative of Tax Administration, specializing in taxation;
- An auditor who is an expert in accounting and tax evasion; and
- A policeman who is a specialist in fraud with bills of exchange.

Then, we would need to invite audience. We have 100 members (we expect at least 50). We would like to take this opportunity to reach a large number of potential clients and decide to invite 300 persons. An advertisement in the press, repeated 4 times, gives us nearly

200 participants who have registered, and we plan to recruit another 100 through telephone calls, using a staff member, a volunteer, and a telephone directory. Thus, we end up with the following costs:

- Rent of hall - 200 UAH;
- Fees for speakers (Tax Administration and Police must communicate with public free of charge; our association enjoys a prominent local stature, and this seminar is not a commercial one. As for the lawyer and the auditor, they would gain good publicity for themselves. And as for the fee, 100 UAH per hour for each speaker is a good price. It gives us 400 UAH for all, or 600 UAH with charges);
- Advertising in press cost 200 UAH; and
- Telephone marketing (to reach 100 invitees, we would need to make 500 calls. One person makes 10 quality calls per hour. So, we would need at least 2 persons, making calls all week long via two telephone lines). Their pay would be 200 UAH; the telephone would cost no more than 50 UAH.

Thus, the budget of this one-time event will total 1250 UAH. This is not cheap. But we have 50 members and additional 350 invitees, a highly professional group of specialists, and a hot topic. If we price participation in this seminar at 10 UAH, and even if we allow our members to attend for free, we would collect at least 3,500 UAH. From now on, all invitees that are not members of the association would wonder why should they spend an additional 10 UAH if as members we could receive this service for free (without additional payment). So, this would be a good opportunity to increase our membership base and our organization's financial resources.

The example has been simplified, but we have built a successful training service.

**Summary.** This is an example of a one-time service that may contribute to positive financial results and strengthen the association's client base.

### 5. Providing Tangible Benefits of Membership

Group discount is a service that was discussed as an example during training sessions on business association management, arranged by BIZPRO project. The authors have no real-life examples of domestic business associations offering this service, although providing brokering services is a common function of foreign business associations. The essence of this service is that each member of the association receives tangible benefits resulting from membership in the organization. In this way, she or he becomes more interested in maintaining a membership. To provide this service, an association, for example, arranges with a publication (to which most of its members subscribe) for a group subscription for the members of the association. They receive a discount on the subscription to a publication they need, and so they would pay membership fees eagerly, expecting discounts on other products and services. The association would have contented members and would collect membership fees successfully.

**GENERAL CONCLUSION:** *A business association satisfies the needs of its members and clients by providing services. Services may be offered on a regular or a one-time basis. Membership is a variation of a regular service.*

## CHAPTER 7: Organizational Structure

*One's wishes should fit one's capabilities.  
O. de Balzac, "Shagreen Leather"*

A business association satisfies some of its target market's needs, which are reflected in the mission of the association. However, there are always underutilized capacities. First, a business association cannot satisfy all needs. Moreover, not all potential clients of the target market join associations. When they fail to reach the entire target market, managers of associations tend to blame limited capabilities.

Let's have a closer look at what limits our capabilities.

### Example 1.

Let's assume we work in a city with a population of 100,000; 500 enterprises, mainly small; and 500 entrepreneurs. We are established as a city organization and try to facilitate growth of local small businesses – in other words, our potential market accounts for no more than 1,000 business units, both individuals and legal entities. However, we are not alone. Two other business associations with similar goals also operate. So, all three of us are rivals and we compete for clients. If we work almost in the same way, we would have equal market shares, approximately 30 percent each. Thus, the number of 300 potential clients for us appears plausible. Are we able to attract 100 clients? Probably, yes. Are we able to attract 300 clients? Probably, yes. Are we able to attract 1,000 clients? Most probably, no. Under the existing market structure, this is impossible. Our success will be limited irrespective of our efficiency or inefficiency. Our success will be limited as a result of external factors.

**Summary 1.** *The market in which a business association operates can be an external constraint on the association.*

### Example 2.

The same business association operates under the same conditions. It has one volunteer and one full-time employee. The association has 100 members, 80 percent of which pay small membership fees of 5 UAH a month. So, the association has nearly 400 UAH of revenues a month. The monthly cost of office maintenance and the telephone bill are 50 UAH. We spend 100 UAH to cover the cost of accounting and reporting services and some administrative expenses. We have 250 UAH remaining, which we could use for wages for management, marketing events, offering members something for which they pay fees, and association development. In addition, it's a rare day when some businessperson does not show up, demanding that we protect his or her rights or give advice. But we cannot do what the businessperson requests because we lack capabilities. What exactly are we short of? Naturally, it is either money or human resources.

**Summary 2.** *The capabilities of a business association limit it from within. The Main elements of capabilities are organizational structure and financial factors.*

**Chapter 8** discusses financial factors; this chapter focuses on organization structure. First, we note that there is no ideal structure. Decisions with regard to the structure of a business associa-

*The market restricts sales from outside while capabilities restrict sales from within*

*The main elements of an organization's capabilities are structure and finance*

tion are typically made on the basis of the following factors:

- Current legislation framework;
- Effectiveness in fulfilling principal objectives;
- Minimum undesirable outcomes;
- Current needs;
- Practical considerations; and
- Dynamics of the situation.

So the process of determining structure is a result of a permanent search for compromise.

Let's have a look at these factors sequentially.

### 1. Legislation.

Under Ukrainian law, the management of a business association is subject to the purview of statutory documents, although requirements may vary for different associations. Decisions about political or strategic questions are usually made in general meetings of members. The administrative and executive body presided over by the director or the president runs the association on a day-to-day basis. The statute specifies authority and powers of this body.

*Legislation on management*

### 2. Effectiveness.

An organization exists to satisfy the needs of its clients. To achieve efficiency, we have to do the following:

- Make strategic and marketing decisions;
- Carry out core activities, offering services to clients;
- Manage current activities; and
- Ensure supervision.

A higher governance body – that is, a general meeting – will make strategic decisions, but someone needs to prepare the information on which these decisions are based. Small or young associations may have executives do it, while more developed associations may have formal or informal analytic groups. Current activities may have various forms of organization, depending on the kind of services provided. It would make sense to have full-time employees if the association provides permanent services (such as providing information on changes in legislation), and in cases where one-time services are provided (such as arranging a seminar), a temporary group made up of staff members and volunteers would be more appropriate. To exercise supervision, we would need some standards or norms that would enable the identification of specific deviations from these norms and standards. In small associations, this could be simple; in larger associations, permanent teams may be required to develop and supervise standard compliance.

*There is no perfect structure. Structure should be designed to improve the organization's effectiveness*

### 3. Undesired Consequences.

Let's assume you are the executive director of a large all-Ukrainian business association. Obviously, to perform well you will need to have regional branches or representation offices. Good managers will be needed to lead effective representation offices. To have more flexibility in addressing local problems and to raise their status, regional managers may want more independence. However, the professional ambitions of regional managers may grow over time. We would end up with an ambitious leader, who, thanks to his work in a large association, would enjoy huge authority on a regional level, maintain good relations with regional clientele, and behave independently. Later on, he would begin thinking, "Why should I manage a regional branch if I could set up and lead a sepa-

rate organization?” This is an example of an undesired consequence. Therefore, while developing an organizational structure and the division of authority between headquarters and regional branches, one should take into account the possibility of undesired consequences.

Committees may present a good opportunity to involve members of the association in its current activities. Some organizations set up such structures.

Committees may be classified by their purpose, duration of work, or both. The simplest would be to divide them into permanent committees and ad hoc committees. A permanent committee exercises certain functions on a continuous basis during an indefinite period of time. As a rule, this type of committee handles organizational and working problems. For example, Lviv Oblast Association of Small and Medium-sized Businesses has a system of committees in place, called “a system of guilds”. Because this organization unites enterprises engaged in the variety of sectors, it sets up guilds on tourism, on construction issues, etc.

An ad hoc committee is set up to solve a specific problem. Once the problem is solved, the committee is disbanded. Sometimes, these committees are called work groups.

*Committees are an effective means for involving business association members in everyday activities*

Through committees, staff members of a business association raise awareness of realities and developments in their respective sectors, profession, community, or group whose interest a business association advocates. Committees unite, represent, motivate, coordinate, and link separate members or member groups of business associations. Committees are a good school for association managers.

Committees also have weaknesses. First, they require time and cash outlays for member trips and preliminary preparation. If members of the association believe these expenditures are not justified, committees make no sense. Committees may disrupt a normal working schedule because its members may not agree about an issue, because decision-making procedures are non-existent, or because no one wants to disagree with somebody else’s decisions. The committee’s leaders may quarrel. These risks should be carefully weighed so the committee’s work will be relevant.

Normally, the highest-ranking manager or sometimes a governing body of the association appoints heads of the committees. However, recommendations by another similar body, acting under the association’s management, may be stipulated. Agreement of the head of the committee must be received before his or her final appointment, and the appointee must confirm acceptance of the position after the appointment.

Members of a committee must have the following qualities: commitment to achieve goals of the association, readiness to exchange opinions and recommendations freely, respect for established procedures, professional prestige and competence, initiative, availability to work with other committee members, and a clear understanding of the need for cooperation with staff of the association.

The committee should be as small as possible, particularly if it performs no research functions. While determining the final number of the committee members, the following should be taken into

account: whether most types of association members are represented; whether succession has been ensured – that is, one or two members have worked on the committee previously and are continuing to serve; and whether rotation of members has been observed.

As already mentioned, members of the committee will be appointed upon approval of the highest-ranking elected manager of business association. Sometimes, members of the association elect committee members from a proposed list of candidates. Finally, members of the committee may be selected or elected upon recommendations of association members. Appointment procedures should be defined flexibly in the rules of procedure of a business association, rather than through its statutes.

To make membership in the association attractive for all representatives of the target segment, every member should have an equal opportunity to be elected to the key positions in the organization. An enabling environment should be created, which is an element of the culture of an organization and an essential feature to distinguish it from similar entities; the opinions of each member should be taken into account during the process of strategic decision-making; and everyone should have an opportunity to implement appropriate steps to benefit the organization. An organization will not be successful unless it has in place and exercises criteria for choosing candidates for positions only by the candidates' competence, willingness to work to benefit the organization, and authority. Organizational success can only be hampered if issues of gender and age are allowed to cloud personnel-related decision-making.

#### 4. Personnel

Practically every business association needs to distribute a scope of work for each position, current or planned, among its staff. In principle, both staff members and volunteers may get the work. A well-organized staff of members and volunteers can have a significant impact on how a business association performs in serving its clients and members.

Availability of staff members with required qualifications enables business association managers to plan resources and attend to clients' needs effectively. If a business association has a qualified lawyer on staff, all legal questions will be solved quickly and effectively, and if everything is in its place, consultations with clients will be provided diligently. If a lawyer is not working full time, nobody can guarantee the timely resolution of legal questions or rendering of legal advice.

And now let's assume we are recruiting new members. Earlier, we have discussed the importance of a broad clientele for business association. Staff members should be able to communicate with potential members any time (that is, during working hours), find out their problems and needs, and answer their questions. This service would increase the probability of building up the membership.

As another example, often we learn about draft legislation that may significantly impact the business environment only several days before it is to be voted on or enacted. This problem – influencing legislation affecting businesses' interests – is of direct concern to business associations. Obviously, it is much easier to influence decision-makers before a decision has been made – in other words,

*An organization's structure that provides equal opportunities for all members, may be a distinctive feature of your business association compared to other organizations*

before the date when the legislation is adopted and becomes law. However, this influence can be exercised only in cases where business associations prepare analytic or expert material and use it to hold a discussion about the pending legislation and its ramifications. Often, business associations have only a couple of days. It is difficult to assemble qualified volunteers who can spare two working days to do this assignment. Rushing is detrimental to quality. As a result, the discussion is not well prepared and reasoning is weak and based on emotion. Another alternative would be to have qualified staff members who are competent in the subject. They could prepare analytic material in time, and the discussion would reflect good reasoning. We would achieve what we had wanted.

### *Balancing the positives and negatives of staff and volunteers*

The advantages of having staff members instead of volunteers are that we can manage the process and that we have the desired quality of thinking and can achieve our goals. Our relationship with staff members is formalized, and we require their commitment. However, there are some drawbacks that accompany these advantages.

The negative side of having a full-time staff lies, of course, in financial factors. In order to hire staff members, one must have office premises, permanent salary, additional administrative burden, staff records, and additional efforts of an accountant in computing salaries. For a small or start-up business association, particularly in smaller towns far from major financial flows, using volunteers may be the only way to earn money.

For example, the All-Ukrainian youth non-governmental organization “Council of Young Businessmen of Ukraine” employs two types of volunteers: first, students, who acquire professional experience by working in this organization; and, second, members, who in lieu of paying membership fees provide services or technical maintenance, or work several hours for the organization.

The stronger and more representative a business association is, the simpler it is to find highly skilled volunteers.

### *Legislation on volunteers*

The legal status of volunteers and volunteer activities was defined in the Law of Ukraine on Social Work with Children and Youth [VR#2558, 21 June 2001]. It is the first law to determine in Ukrainian legislation the status of volunteers as persons who carry out voluntary, charitable, non-profit and altruistic activity that is socially useful.

However, this definition does not cover the legal regulation, let's say, on taxation and social insurance of volunteers. Some kinds of volunteer revenues are not included when calculating taxable income. In particular, these are compensation payments: per diem (including subsistence) while traveling away from home; payments for depreciation and wear and tear of tools; and transportation vehicles and other assets in their ownership, used for purposes of business association at their duty station. Volunteers are also eligible to receive stipulated by law target and non-target charitable aid, optional insurance allowance (including pension security) at the cost to the business association, and financial aid or gifts (prizes) from the business association once a year, worth of total 331 UAH.

Reimbursable travel expenses (fare, accommodation, meals, services, and per diem) will be deductible when participants are employees or members of the business association's management bodies. This same regulation applies to reimbursement of participation fees in symposia and conferences on issues related to core activity of the business association. Typically, compensated payments are deductible if they were made on the basis of agreements of authorization.

The issue of labor contracts with regard to members of a business association's governance bodies in Ukraine is controversial. Labor relations have two major elements: payment and accountability before the owner's representatives. If the work is free and there is no accountability, the labor relationship, according to the letter of law, will not arise. Even work in an elected paid position will not be the basis for concluding a labor agreement, whereas disputes concerning premature dismissal from a position in a public association, upon decision of bodies that have previously elected these persons, are not subject to consideration in court according to the labor legislation. Moreover, individuals fired in connection with their being elected to positions in nongovernmental organizations are guaranteed to be re-employed at their previous place of work or at an equal position. Thus, both elected members of management bodies and volunteers-donors are not eligible to sign labor agreements with the business association, unless its statutory documents provide otherwise.

In contrast, it is clearly stated that a labor relationship is based on a labor agreement and neither a formal contract nor an internal order is needed to conclude it – it is sufficient to actually hire a person to work. To have a labor contract concluded, the law requires that a person submit identification; labor book; and, in cases clearly provided for in legislation, documents on education received and state of health. In addition, the law prohibits the request of other, not stipulated documents, including proof of residence registration.

Sometimes situations occur when “volunteer activity” may be recognized “labor”. These may include the availability of a contract on the provision of services; work or time, particularly for the redemption of benefits received (such as education) in advance or in future; claims to indemnify losses resulting from failure to provide or improperly provide services by the association; written reference to “contract” and “labor” or reference to the association as “the employer” or “customer”; and references to disciplinary or property liability before association.

An important issue is the minimum age of volunteers. Ukrainian legislation allows individuals aged 14 to 18 join public organizations, and, therefore, they may also be volunteers. However, they may not get involved in activities that require licenses and other special permits, and the parents or tutors will be liable for any damage caused by underage volunteers.

Volunteers must render services in person. Even if statutory documents of a business association or agreement entitle a volunteer to assign another person to perform this service (say, upon an authorization of a volunteer-member of management body), he or she remains liable for full and proper provision of the service, according to the Ukrainian law.

Volunteer activity, as a rule, is subject to regulation of the following agreements: agreement of authorization, free services, and free custody.

Liability for the caused damage may vary, depending on the legal status of a volunteer. According to the Civil Code, unless special laws establish otherwise, the following regulations apply to volunteers:

- Damage must be indemnified by the person liable for causing it; if the damage was caused by a number of parties (for example, by a volunteer and a business association), they will bear solitary liability before the injured.
- A business association will be liable for the indemnification of damage caused by its management bodies while performing their labor and business responsibilities.
- A business association will indemnify third parties against any loss resulting from its wrongdoings/illegitimate actions (such as undertaking activities that need licensing without a license) and in case of damage caused by its own sources of enhanced hazard (such as car and electric tools).
- Where a business association is liquidated, liability for indemnification will be taken over by its successors, and, if there is none, the amount of indemnification will be capitalized according to the rules of the state social security and will be deducted from the business association's assets at the time of its liquidation.

Thus, one can distinguish between two types of volunteers: persons elected to uncompensated positions in the association's management body, and persons who provide business associations with free services or free work – that is, donors.

Thus far, Ukraine legislation has not distinguished volunteers from staff, particularly insofar as taxation of individuals' income and mandatory state pension and social security are concerned. Reimbursement to volunteers remains partially unregulated, too.

Until new tax and civil codes are adopted, some aspects of volunteers' legal status will remain unregulated. However, this circumstance should not prevent Ukrainian business associations from using the existing legal framework to develop volunteer activities as one of its major resources.

**GENERAL CONCLUSION: A business association chooses a structure, which shapes its internal capabilities.**

*Volunteer activities are an important resource of a business association*

### CHAPTER 8: Finance of the Organization

Finance is the second important element that restricts the opportunities of a business association. Sufficient financing for activities of a business association requires solving several problems, particularly ensuring cash inflow, using money efficiently, exercising financial control, and ensuring the proper tax mode.

A business association cannot operate efficiently without good financial management. Members of the business association expect results from their contributions, and they expect efficiency from the business association.

Outputs and efficiency of the business association are frequently determined on the basis of financial data. Financial activities facilitate the management of planning, execution, control, and evaluation. In this chapter, we describe actions aimed at increasing cash inflow, efficient utilization of funds, and budget planning, and touch upon the fiscal aspects of business associations' activities.

#### 1. Sell More

For a business association to have money, it must first know where to get it. Sources of funds for business associations may be membership fees, donations (donors' money and charity contributions), and payments for services. Frequently, business associations put their sales under the heading of charitable contributions. To avoid misinterpretation of motives, we will look at sources of funds based on the actual rather than imaginary meaning. The fiscal aspect will not be discussed in this chapter. In other words, when we say "a sale", we will know that the business association provides services and receives money for it, regardless of the way it does it.

**Membership Fees.** Membership fees are no longer the main source of financing for business associations. Many foreign business associations declare that only 30-50 percent of their revenues come from membership fees. There are many ways to establish membership fees. Often, associations use a **fixed sum system**. Under this method of payment, administering membership fees is easy. There is a hidden danger, however. For a business association with a mixed structure, some of its members may readily accept the proposed fee, whereas others may find this to be an unsolvable problem. Sometimes, the **percentage system** is used to solve this problem, when the size of a membership fee is based on sales or profits or on certain types of its income (income from exporting certain products or sales in a certain region), or on annual investments, number of employees, or size of the land plot (for farmers). Having solved the problem of fair distribution of the financial burden, we immediately face two other problems. First, few members of the business association under current circumstances would present accurate data on sales or income. Second, all the members of the business association have equal rights and access to its services but many would pay different amounts. Sometimes, two systems are combined, when a **multi-level system** is established. Under this system, there are several fixed rates and, accordingly, several membership levels: all members pay the same minimum fees while additional fees may be charged for certain services of the business association; or members can pay their fees at different rates depending on the amount of services they receive from the association.

*There are only two ways to improve your financial status. The first is, Sell More!*

*One of the sources of business association financing is membership fees*

*Flat rates are more appropriate for associations whose members' income (or demand for association services) are approximately the same. Proportional dues are more appropriate when members' income (or demand for association services) vary greatly*

In any case, the business association will have to solve the problem of membership fee rates. High rates will narrow the potential circle of members. Only the ones able to afford high fees will become members of the association. In this case, however, it is much easier to administer payments. In addition, the business association will have sufficient money to provide high quality services to its relatively small number of members.

Low rates may result in the failure of the business association to collect enough money to cover its fixed costs. This will decrease the quality of its products and services, and the business association will become less attractive for its members. Some business associations establish extremely low rates for their members, such as UAH 1 per month. This may be good, but we have not seen any efficient system of accounting of these payments. Every payment in the amount of UAH 1 requires at a minimum filling in several documents. One should account for the money at the cashier, register the payments, transfer the money to the bank, and make entries in the accounting registers. In addition, one has to analyze the registers regularly and meet with clients who did not pay the fee to convince them to pay it. All this entails considerable expenditures from the business association's own funds. If it does not do this, the business association will most probably face such problems as theft (not all the money will get to the cashier), dishonest members (if the fees are not properly accounted for, it is impossible to prove or deny the fact of payment), unwillingness to pay (the low rate of the fees makes the members believe that the payment is not very important), and lack of transparency (the members may require reporting of their fee payment, which is impossible without an accounting system).

In summary, there is no rule for the establishment of membership fee rates. When establishing the rate, one should take into account the mission of the business association, the target markets selected, opportunities of potential members, and the budget. We have already discussed marketing processes above, such as pricing of products and services provided by a business association – a basic marketing process. At the same time, we recommend setting the same rates for entrepreneurs who have approximately the same income and use the same amount of the business association's services. In other cases, differentiated rates would be more appropriate – minimum entrance or annual fees to attract the desired number of entrepreneurs and proportionate rates that would directly depend on the quality of the business association's work (such as services and increase in sales in the business association's territory).

*An additional source of financing is grants or "donor assistance"*

**Grants, Donors' Aids.** There are many donor organizations providing assistance, often in the form of grants. In fact, a grant is a sort of contract under which a donor pays for some activities of a recipient. Frequently, allocation of a grant is preceded by the development of a project and a tender procedure. Some organizations make it their goal to get as many grants as possible. Today, they support small businesses, having received a grant for small business development. In a year, they will start working at, for example, building a democratic society. There is nothing wrong with that approach – where there is supply, there is demand. Associations must remember, however, that a change of a grant or a donor may lead to a complete change in the organization's activities, taking it away from its mission and from its targeted market. This, in turn, may lead to the organization's collapse. Therefore, donors' assistance is like a

## CHAPTER 8: Finance of the Organization

bottle of good wine – if you enjoy it with little sips, it will help your stomach and increase your appetite, but if you drink it all at once, you risk becoming an alcoholic.

To find out more about sources of foreign funds that are available to Ukrainian nongovernmental sector, send an e-mail the Center for Innovations and Development at [cdc@ukrnet.net](mailto:cdc@ukrnet.net). Recently the Center published a Guide to Foreign Sources of Financing Ukrainian Nonprofit Sector. You can also visit various resource centers (for example, [www.gurt.org.ua](http://www.gurt.org.ua)).

**Payments for Services.** Any business association can and should earn money selling its products and services. Membership is just one way to sell products and services. However, one should not restrict oneself only to the collection of membership fees. Membership itself for a client indicates some long-term need of products and services from the business association. It is very good if a big share of the target market belongs to our business association and pays its membership fees regularly – for example, the SME Association is located in the town of H., where out of 1,000 small enterprises 100 are members of our association. All 100 members pay their membership fees of 20 UAH regularly, so 2,000 UAH is collected on a monthly basis. This money is enough to run the association's office and fund certain programs. We study and satisfy needs of 100 entrepreneurs, but there are 900 other enterprises and we know nothing about their needs. Or maybe do know that those enterprises do not need any of the services we provide on a regular basis. At the same time, it is possible that certain one-time products or services would be useful for them. Therefore, even without increasing our membership, we have a great potential to generate additional funds – for example, by organizing a seminar similar to the one described in *Chapter 6*.

Thus, all the ways to increase sales can be narrowed down to two options.

**The first option** is to sell to a large number of clients. This can be achieved by increasing the target market share or by finding new target markets. For example, a business association publishes a periodical and distributes it among its members free of charge. If there is some place in this periodical for publishing advertisements, the potential advertisers will be not only association members but also the enterprises whose potential clients are the members of the business association. Advertisements from the companies other than the association members may be published for the a payment close to the market rate.

To increase sales, we will need to sell advertising space to as many advertisers in a region as possible (this might mean increasing the number of publicity agents or entering into an agreement with an advertising agency) or start selling advertising space in other regions (this may require a representative office or an agreement with an advertising agency or with a business association from another region).

**The second option** is to sell more to the existing clients. This is achieved through the development of interrelated products and services (the sale of one product stimulates the sale of the others). With regard to the same advertisements, for example, instead of offering a one-time publication for UAH 30, we can offer to place a

*Fee-based services are a means to increase business association income*

*To sell more means either to sell to a larger number of clients or sell more to each client*

client's advertisement in 6 issues in a row with a 25 percent discount. As a result, the sales will amount to UAH 135 instead of UAH 30. Further, because we publish the periodical anyway, we have either our own layout specialists or access to such specialists. So in addition to publishing ads, we can easily offer our clients assistance in layout. For these services, we can charge close to the market rate.

### 2. Spend Less

The business association earns money. We have members who regularly pay membership fees, receive grants and donations from sponsors, and sell our products and services to the clients. For a business association to have enough money to achieve its goals and because of its public nature, its financial resources should be efficiently spent. The easiest way to do so is to spend less. However, saving and cutting expenditures should not be goals in themselves. Any expenditures have to be justified by the efficiency of the process.

What processes should be analyzed from the viewpoint of efficiency? This should not be done for all the internal processes of the business association. Attention should be focused on the most resource-consuming processes – that is, the ones that require the most resources: whether financial, time, or labor. To know what costs should be reduced, we need to have a budget.

**Budgeting.** The budget of the business association is a financial reflection of its strategic plan, a basis for combining the plan's different components and a tool that helps determine the feasibility of the plan when all of its elements are combined. Long-term tasks and strategies of the association are described by words in the strategic plan, whereas in the budget, they are expressed in financial terms.

Many forms and methods are used for budgeting. For example, we can budget for a month, a quarter, or a year; we can draft a budget for a one-time event, for different affiliates, etc.

In **Chapter 6**, we created a member service of providing information for a hypothetical business association. Now we will try to draft a budget of an organization for one month.

Let's remember that our business association works in a small town and unites about 100 small businesses. The marketing decision regarding the membership fee has been made – 10 UAH a month. Therefore, our planned income is as follows:

#### INCOME BUDGET

• Member fees	1,000 UAH
<b>TOTAL</b>	<b>1,000 UAH</b>

Now, let's look at our expenses.

#### EXPENSES BUDGET

*There are only two ways to improve your financial status. The second is, Spend Less!*

*Budgeting improves the understanding of any organization's finances, increases control and can improve the efficiency of the current management*

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• Office Maintenance (small room with telephone)	50 UAH
• Magazine and Journal Subscriptions	50 UAH
• Salaries for Part-Time Staff (with taxes)	300 UAH
• Printing Expenses	200 UAH
• Postal Expenses	200 UAH
• Accountant's Salary (part-time position)	150 UAH
• Other Administrative Costs	50 UAH
<b>TOTAL</b>	<b>1,000 UAH</b>

Thus, we can see that our income and expenses are balanced but we have nothing left. We don't even have money to pay a salary to the head of the association. Our organization won't last long if we don't do something about this situation.

First, let's try to increase our cash inflow. In the example in **Chapter 6**, we mentioned developing a new service, which we called "Establishing Contacts". By providing this service, we could generate additionally 220 UAH a month. Therefore, our monthly budget will now be:

### INCOME BUDGET

• Membership Fees	1,000 UAH
• Additional Service, "Establishing Contacts"	220 UAH
<b>TOTAL</b>	<b>1,220 UAH</b>

**Note:** it is best to use separate lines for budgeting main sources of income. This allows us to have a clear picture of the correlation among various sources of income and focus on the most important ones.

Since we have more income now, we should add some costs. In the example, additional costs constituted 60 UAH for copying and 40 UAH for additional salaries. Therefore, our adjusted budget will now look like this:

### EXPENSES BUDGET

• Office Maintenance (small room with telephone)	50 UAH
• Magazine and Journal Subscriptions	50 UAH
• Salaries for Part-Time Staff (with taxes)	340 UAH
• Printing Expenses	200 UAH
• Postal Expenses	200 UAH
• Accountant's Salary (part-time position)	150 UAH
• Other Administrative Costs	50 UAH
• Balance	120 UAH
<b>TOTAL</b>	<b>1,120 UAH</b>

**Note:** It is best to budget expense items so they can be correlated with revenue items. This will allow us to evaluate the cost and profitability of different services. This was not done in the example, so it is difficult for us to assess the contribution of each service to our total expenses. To make the analysis easier, we can show the item "printing informational materials" in the following way:

• Printing informational materials (total)	260 UAH
• Direct mail	200 UAH
• Establishing contacts	60 UAH

Now we see that we have 120 UAH left. We can use it to pay

*It is helpful to enter the main income items in separate lines. This will allow you to see the correlation between various items and concentrate on the most important ones*

salaries, develop our organization, or, according to existing legislation, for any other purposes set in the statute.

Having analyzed expense items, we can find some reserves to increase our efficiency. It is best to look at the most important items. If, for example, we can cut down on our copying expenses (either by ordering a large number of copies and getting a discount or by using our own copier), we will save 52 UAH. If we can cut down on postal costs (by using couriers or volunteers), we will save as much as 200 UAH. We therefore conclude that postal costs is a more important expenditure item for us, and we should think about how we can deliver our materials to 100 addresses twice a month.

*The motivating force behind budgeting is always the mission of the association*

Budget planning may help the association in three ways.

First, the budgeting process improves coordination of the activities of the association's different units, because it reveals contradictions in goals and interests. Budget planning contributes to the establishment of links between different levels within the organization. Managers have to communicate with one another because the resources they are competing for are limited.

Second, budget planning enables the exercise of control because the budget will always be confronted with real actions and results.

Third, budget planning facilitates more efficient management of the organization. Let us imagine that our association's leader is trying to prepare a public hearing. The issue that will be discussed at the hearing may worsen relations between association members and tax-collecting functionaries, so the association's leader needs to develop strong arguments, conclusions, and proposals. Unfortunately, he or she cannot concentrate on this work because of the constant need to deal with other issues. First, the secretary demands two new pencils because she has run out of them and to buy new ones she needs an approval. Second, a volunteer who is responsible for public relations wants an approval for an ad for the local paper. Third, the association's leader needs to sign approvals to pay the rent. Now, will this leader be able to prepare for the public hearing if he or she constantly has to approve petty expenses? If the association has an expenditure budget, most of these expenses will be covered almost automatically (provided money is available) and the association's leader won't have to waste time.

However, there are certain difficulties related to budget planning. First, if it is expected that the budget will be used for evaluation by certain people, these people must participate in the planning. Similarly, budget planning should not be exclusively a function of the association's senior managers or its financial unit. All the employees of the business association authorized to make decisions should be involved in this planning.

Second, the moving forces of budget planning are the tasks of the business association. Managers who are preoccupied with the prospect of budget execution may miss this fact. Fulfillment of the business association's tasks is verified on the basis of its budget. Thus, it is the tasks that should be in the focus of attention rather than the budget itself.

Third, circumstances change and the events that take place may differ from those envisaged by the strategic plan. Consequently,

such a plan should not restrict actions. Its role is simply to serve as a guide.

### 3. Fiscal Aspects

Frequently, managers of business associations think they cannot sell their products without risking the non-profit status of business associations. This approach, however, is wrong. Current legislation presents many opportunities for generating income.

Ukrainian legislation allows nonprofit organizations, including business associations, to attract the resources they need in different ways. Unfortunately, business associations often ask private investors for donations or grants of 4 percent of taxable income (at the moment, this rate is the same both for enterprises and for individual entrepreneurs). However, half of all enterprises do not declare any taxable income so they cannot take advantage of this benefit. Other enterprises could make the donation officially, but for a private investor to donate 4 UAH to charity only to pay 28 UAH in tax on the rest of the income is no tax benefit – the donation costs 7 times more than he or she is ready to invest in services of the business association.

Legal procedures for attracting resources in the form of non-repayable assistance (financial or in-kind), or charitable, humanitarian, and international technical assistance (more known as grants) are now regulated more strictly as special registries and reporting systems have been introduced.

What other means of attracting resources are available to Ukrainian business associations?

Four main groups can be singled out: passive income (not taxed for all business associations), income from core activity, loans in cash and in-kind, and indirect methods of attracting resources.

**Passive Income.** Passive income, or payment for the use of property and proprietary rights of business associations, includes interests, dividends, insurance payments, and royalty.

In principle, business associations can receive dividends only from their own investments – profits of affiliated enterprises and income from participation in economic partnerships or from mutual cooperation. It must be noted that the tax on dividends is paid regardless of whether a business association is subject to income tax or not. Only in the next reporting period can amounts that have been paid as tax on dividends be credited to the amount of income tax.

Since the insurance market in Ukraine is underdeveloped, insurance payments are also of interest to only a few business associations. At the same time, legislation allows for numerous possibilities of using such payments – in particular, when insuring property and civil liability (for example, in cases of moral damage lawsuits, which often affect mass media).

Interest is more easily accessible. Here, we are talking not only about bank accounts and deposits, which are well known to most business associations. It must be kept in mind that repayable financial assistance (interest-free loans for a fixed period of time such as

*Legislation regarding fee-based services*

*Business associations can provide business services, without contradicting their non-profit status*

a month or a year) is regarded as a regular debt liability and therefore it is neither a business association's nor its investor's profit. In contrast, a financial instrument such as a time deposit can help the investor return the main sum of the re-payable assistance and let the business association earn non-taxed interest while the money is on deposit.

The term "royalty" should be understood as any payment for the use or for a permission to use intellectual property rights – in particular, copyrights, patents, licenses, registered logos of business associations, trademarks for products and services, inventions, and scientific samples, industrial samples (for example, clothing samples), designs, programming tools, secret formulas or processes, and information related to the scientific experiences (know-how). Payments for alienation of intellectual property (transfer of the rights of ownership, possession, or administration) are not regarded as royalty, which means that business associations cannot grant anyone the right to sublicense or re-sell samples.

Ukrainian law also protects works of science, literature, and art, such as books, brochures, and articles; computer software; audiovisual works; paintings, drawings, and other works of fine art; photographs; works of applied art if they are not protected by a special law on industrial property; illustrations, maps, plans; sketches; translations; adaptations and other interpretations of works used as a basis for derivative works; collections of works, encyclopedias and anthologies; and collections of data, including databases, if they are the result of creative work of selecting and sorting the content.

Also protected are unpublished works, regardless of their purpose, genre, and volume (such as education, information, advertisement, propaganda, entertainment, etc.), conveyed in oral, written, or other form. A piece of a work that can be used independently is regarded as a separate work. Copyright registration, as opposed to registration of patents, industrial samples, or trademarks, is a right, not an obligation of authors and business associations.

The royalty on use of the business association's logo is very practical because it is subject to registration in the Ministry of Justice of Ukraine (if the business association is a public organization). Nearly every business association can register its logo. The royalty in this case is included in the investor's expenses, and VAT is not paid.

**Loans.** Loans include any legal actions that require the return of property or money within a fixed period of time without interest but taking into account depreciation and indexation costs. Beside repayable financial assistance, which has already been mentioned, loans include agreements on free use of property, operational leasing (for paying the lessor depreciation and insurance payments), and free safe-keeping. It must be remembered that charitable organizations cannot receive loans and or provide their property as a collateral for such loans.

**Core Activity.** Ukrainian law does not clearly define the conditions for providing paid services by business associations, so most non-profit organizations do not take the risk of being excluded from the registry of non-profit organizations and thus having to pay taxes on all of their income. However, certain types of core activities pro-

*Watch out! An association's "primary activity" is determined by tax inspectors rather than legislation*

vide for a possibility of rendering paid services: advertising an investor's trademark or name (not his or her products or services) is a charitable activity, and payments for such announcements are regarded as income from the core activity. Also allowed are payments for the use of the association's equipment (for example, computers) on the condition that the payment will not exceed the sum of depreciation charges.

### ***Social Marketing and Indirect Methods of Attracting Resources***

These methods are defined as indirect because investors give discounts or other rewards not directly to the business association but to individuals who have already become its volunteers or investors. This type of activity is good for increasing sales and does not increase an investor's tax burden. Here are some effective indirect methods to attract resources:

### ***Indirect revenue generation***

**Sample distribution.** Investors are often interested in disseminating samples of their products. Business associations with many members or clients can help with this. Up to 2 percent of taxed income can be used to fund dissemination of samples and other activities of enterprises relating to sale preparation. Such activities include dissemination of samples by mail, door-to-door, during a business association's events, on packaging or inside it, and on other carriers (catalogues, descriptions, and images).

**Distribution of coupons.** Coupons are any documents that give the right to a discount when buying products or services from certain merchants during a limited time period. As a rule, coupons are distributed through various publications by direct mail and by placing them on packaging or inside it. These technologies are already well established in Ukraine. One example is the distribution of publications with coupons for various events of business associations.

**Earning bonuses and points.** These are compensation schemes that give the right to free products or services – if the purchase of certain products or services exceed a minimum sum (for example, 100 UAH), the buyer receives an additional product or, say, an invitation to a charitable concert.

**Contests.** Contest rules assume that a certain action is taken under conditions that have been set beforehand. These conditions are regulated by the Civil Code and rules that are approved by the contest's organizers. Since issues related to taxation of material prizes may arise, it is advisable to use agreements on their free use.

**Long-term programs.** Awards in the form of discounts for products or services (also in the form of coupons, points, and bonuses) are given according to the amount of time a person spends volunteering for the business association or participating in its events. These awards can also be made for a volume of purchases for a certain period of time (for example, during one month or a year). To this group, we can include insurance for volunteers and investors at the same cost as for others.

**Special events.** These include one-time events like concerts or fairs, to which only those individuals are invited who have invested a certain amount of money into the business association's activity, and days of the city and regular meetings of the business association's highest unit, where investors are invited as guests of honor. Lesser-known means of social marketing include:

- Issuance of internal “currency” or other internal symbols of accepting liabilities (including debit or discount cards, stamps, etc.);
- Cession of rights for receivables by member entrepreneurs to business associations;
- Endowments (charitable time accounts where interests must be spent for purposes indicated by the donor but the main sum is returned to the donor once the account is closed);
- Sale of the business association’s reports; and
- Courts of arbitration for the business association’s members.

Can business associations provide paid services directly? This is a question every association faces sooner or later. The right of a business association to conduct commercial activities with the purpose of achieving goals set in its statute is directly stipulated by the Law on Charitable Organizations (Article 20, Part 1). Besides, the Constitution (indirectly) and the new Civil Code adopted in the second reading stipulate the right of every legal entity to freely conduct commercial activities indicated in its founding documents. At the same time, referral to such an activity often becomes a ground for refusal to include a business association into the registry of nonprofit organizations. The notion of “core activity” for such organizations is interpreted “by proxy” – only credit unions and pension funds cannot sell their services to non-members but it is not mentioned whether other organizations can do it – for instance, public organizations.

Among the income of a business association that is not subject to tax are the following: funds and equipment received as international technical assistance, income from joint activities in Ukraine without creating a legal entity and dividends from other persons who are taxed according to the Law #334/94, sums of incomes, which meet the requirements of Article 7.11.3 of this law – in particular, donations and non-repayable financial assistance (for associations of enterprises – one-time or regular members’ contributions), property and services that have been rendered free of charge, passive income (interests, dividends, insurance payments, and royalty), and income from the business association’s core activity.

### *Legal definition of core activities*

Among core activities of business associations as nonprofit organizations the following have been acknowledged: providing charitable assistance, educational, cultural, scientific, and other similar services to the public, creating a system of social self-sustainability of individuals, and other types of activities included in the statutes of these organizations on grounds of Ukrainian laws regulating activities of such organizations. The statute of a business association must include the complete list of all activities in which it is engaged.

A state license (accreditation) is required to render certain types of services, such as medical, veterinary, pharmaceutical, security, certain types of design work, and educational services with issuance of state-standard certificates, and others. The total number of entrepreneurial activities, which are subject to licensing, is 60.

### *What are the benefits and disadvantages of paid services?*

In Ukraine, commercial activity is acknowledged as regular, continuous, and direct participation in any activity aimed at earning a profit. This includes activities through detached subdivisions (representatives offices, affiliates, and branches), agents, or any other

individuals acting on behalf and to the benefit of business associations. This means that income from services rendered by subdivisions that are not legal entities or by agents is regarded the same as income from commercial activities of the business association itself. As a result, this business association may lose its nonprofit status. Income from non-core activities is taxed at the rate of 30 percent, with consideration of costs related to generating this income (without consideration of the sum of costs in excess of the income) as well as depreciation costs.

***The benefits of registering a business association as a single tax payer*** include a wide choice of activities, the additional payments are limited to the VAT and excise duties, the free choice of a taxation scheme (6 percent of the revenue plus VAT or 10 percent of the revenue with VAT included), which is especially effective when the business association's activities are exempt from VAT, and simplified fiscal and accounting reporting.

The disadvantages are that the participation of business associations, which are not single tax payers themselves, is limited to 25 percent of their statutory fund or shares, that the status of a single tax payer must be renewed on a quarterly basis, and that revenue of such an enterprise is limited to 1,000,000 UAH a year.

***The benefits of creating subsidiaries*** include limitations with regard to the creation of enterprises based on proprietary rights of public associations, no requirements for the minimum statutory capital, no need for partners or other investors, and the possibility of paying a consolidated tax on profits when affiliates and the association-owner are registered in different tax administrations (profits and losses are calculated both for the business association and for its affiliates).

Disadvantages include the fact that charitable organizations can create subsidiaries solely for purposes indicated in their statutes, that all income generated from the enterprise's activities must be spent on charitable purposes, and that loans and outside investments are hard to get.

***The advantages of participation in associations of enterprises*** include the possibility of joint investments into needed types of the activities of the business association without taxes, the possibility of attracting loans and investments, preservation of organizational and financial independence, and associations, which generate only passive income and represent their members, can be acknowledged to be business associations themselves.

The disadvantages are that an approval of the Antimonopoly Committee is needed for the registration of associations of enterprises, the control over activities of the association's members is minimal, an association is regarded as an enterprise and no interference into its operational activity is allowed, and when a business association is liquidated, its property cannot be transferred to an association of enterprises.

***The advantages of participating in economic societies*** are that there are no limitations in regard to business association's participation, no requirements on the minimum statutory capital, better possibilities of attracting loans and investments, the possibility of carrying out activities that are not related to the objectives set in

***Business associations have the right to earn revenue from participation in enterprises created by them or any other enterprises***

the statute, and there is no interdependent status if the share in the society's statutory fund is less than 20 percent or is not the largest among its members.

Disadvantages include less control, a need to contribute part of the statutory fund (which must equal the sum of at least 100 or 1,250 minimum salaries), irregularity of dividends even when profit is generated, underdeveloped corporate right in Ukraine, and difficulties when selling one's share during the society's operation.

Although all nonprofit organizations, regardless of their organizational and legal form and the code in the Registry, are exempt from profit tax on their passive income including dividends, the Law #334/94 fixes a separate tax rate of 30 percent for dividends. Dividends taxation norms are also connected with the growth of value of the enterprise's property when it is liquidated and allotted among participants.

***Income not distributed for statutory activity is subject to taxation!!!***

Legislation also limits the directions and procedures for spending dividends generated as a result of participation in other enterprises. For example, all nonprofit organizations must spend 75 percent of such income for purposes indicated in the Statute until April 1st of the year following the one in which this income was earned. If a nonprofit organization earned 1,000 UAH in dividends but spent only 600 UAH, the difference of 400 UAH will be taxed at the rate of 30 percent (this tax is not credited when paying taxes on dividends in the next accounting period).

A business association can transfer its property to enterprises as:

- contribution of the owner-association to the statutory fund or to other corporate rights of an enterprise (shares);
- free transfer of property, charitable donations (taxed at the rate of 30 percent if the enterprise is not a single tax payer);
- non-bank loans (in the form of securities with debt liabilities - loan securities, commissary notes, savings certificates, bills of debt, letters of guaranty, and other documents as well as mortgage on securities; consumer loans);
- acquisition of the owner-association's property by the enterprise on the basis of agreements that do not entitle the association to any corporate rights (purchase and sale, financial leasing); these transactions are calculated at the average market prices;
- property transferred free of charge, charitable contributions, and donations from legal entities and individuals (taxed at the standard profit tax rates if the enterprise is not a single tax payer);
- payments for intellectual property and non-material assets (royalty);
- debt securities (bills of debt, commissary notes, guarantees, etc.); and
- transfer of property based on commission agreements, expedition agreements, etc.

A business association can have income from an enterprise as:

- income (dividends) from corporate rights for the enterprise's property (shares, statute capital) as well as for the share of the enterprise's property upon its liquidation;

## CHAPTER 8: Finance of the Organization

- gross revenue of an enterprise, which is a single tax payer, except for the amount of this tax;
- dividends from joint activities with the enterprise (joint execution of charitable programs);
- purchasing products from the enterprise on conditions of a consumer loan;
- creation of endowments (capital funds of money or other liquid securities, interest or dividends from which are not taxed if spent on charitable purposes during 12 months);
- acquiring movable and immovable property on other conditions that do not grant the right of ownership (free use, loan, responsible safe-keeping etc.); and
- the owner's approval for transfer of the enterprise's property to individuals – recipients of charitable assistance.

According to Law #887-XII (Articles 10.4 and 10.6), each enterprise has the right to provide and to receive charitable assistance. This includes business association affiliates. The only problem is that the sum of this assistance is first taxed as a profit of the donor association, and then as a profit of the legal entity that received this assistance (except for associations included in the Registry of nonprofit organizations).

There is an official interpretation of the so-called “repayable financial assistance” provided by the State Committee of Entrepreneurship and Regular Policy, which indicates that repayable financial assistance (interest-free loan) is subject to taxation not as a profit but as a debt liability. Therefore, the sum of a loan can be regarded as non-repayable financial assistance only if the loan was received for an indefinite period of time or if it was repaid with the delay that exceeded the limitation period (3 years as of today). This is hardly a problem for a business association, whereas an enterprise, which provides such a loan, can receive only a 4 percent discount from the tax on profits or pay 30 percent of the loan plus possible sanctions.

Although income from rent (leasing) is excluded from the list of passive incomes, in our opinion, leasing property can be a non-profit activity. For example, permitting free or privileged use of ownership objects or covering some or all costs related to maintenance of charity objects is a charitable activity, which is acknowledged to be a core activity. At the same time, operational leasing is acknowledged as entitling the lessee to use capital assets for the period of no more than 90 percent of these assets' entire depreciation period. These assets remain the property of the lessor and are returned to him or her upon expiration of the operation leasing term. Depreciation charges are made by the lessor. Leasing charges include part of the value within depreciation base, interest on the loan received for purchasing capital assets, insurance payments made by the lessor, and other costs of the lessor stipulated by the agreement. The tax on repatriation of non-residents' profits from leasing payments is not paid in the cost part within depreciation payments for the leased property.

A nonprofit organization and its affiliated enterprise do not bear property responsibility for each other's liabilities, unless their founding documents or agreements (for example, letters of guarantees) stipulate otherwise. The only exception is when a business association is a member of such type of an economic society as the full economic society, where all or particular members are account-

*Enterprises pay taxes for interest-free loans, while business association don't*

able for the economic society's liabilities with all their property. Besides, there is lack of clear regulation regarding bankruptcy of a business association – although only a general court that can liquidate a public organization, the decision to declare someone bankrupt can be made only by the court of arbitration. The law does not acknowledge bankruptcy as a ground for dissolution of a charitable or public organization.

Interference of the association that owns the enterprise is directly forbidden by the Law on Enterprises. Otherwise, the business association would actually function as the enterprise's management without being accountable for the enterprise's liabilities. A far more acceptable option is to thoroughly develop management procedures for both the business association and the enterprise in such a way that the business association could interfere at the decision-making stage rather than at the stage when these decisions are being implemented.

The founding documents of a business association often stipulate that in case its liquidation its property will be used "in line with the goals set by the Statute". This approach is not grounded in existing legislation. Besides, common sense suggests that once liquidation balance-sheets are approved there will be no one to use the property – neither the liquidation committee nor other administering organs preserve such a right. That's why if this property does is not abandoned or is not consigned to the budget for other reasons, it is appropriate to transfer property left after settlement with creditors to another organization of the same type (Law #334/94, Article 7.11.11). This means that a business association can transfer its property to another business association – in particular, to a business association for which these funds or equipment will not be taxed as profit (under existing legislation, these are public and charitable organizations).

Therefore, Ukrainian legislation regulates the commercial (or entrepreneurial) activities of business associations in a complicated manner and with excessive limitations. However, such activities in Ukraine have significant risks. On the one hand, it is the risk of being excluded from the Registry of nonprofit organizations through interpretations of legislative norms by tax collecting organs. On the other hand, it is the lack of instruments for business associations to control enterprises with, as well as the lack of privileges for enterprises when giving to business associations part of their profit in the form of dividends or donations (only individually determined public organizations of invalids and Chernobyl victims enjoy such privileges). That is why it would be more appropriate to provide services independently and use untraditional forms of cooperation with private donors and consumers.

***GENERAL CONCLUSION: To improve their financial situation, business associations can provide more services, use their funds more efficiently, and reduce their costs. Business associations should use the whole variety of opportunities to receive funds allowed by the law, without violating their tax status.***

### CHAPTER 9: Public Relations

*At a zoology lesson at school:*

*Teacher: "Children, is there anyone who can describe a muskrat?"*

*Petrenko: "It is a nice small creature, useful to people,  
having soft pelt and a fluffy tail".*

*Teacher: "And who can describe a rat?"*

*Ivanov: "It is an ugly animal with coarse bristly fur,  
awful fangs, and a disgusting bare tail".*

*Teacher: "Well, children, remember that the muskrat is also a rat,  
but with better public relations".*

*A bit of folklore*

Public relations (PR) is a regular activity of an organization geared toward changing the convictions, attitudes, opinions, and behavior of different groups of people toward an organization and its products and services, as well as toward specific issues, ideas, and actions.

The aim of public relations (which is usually translated into Ukrainian as "establishment of communication with the general public") is to build a certain image of your organization. A good reputation is one of most valuable components of a Ukrainian business association. It implies not only the stability and quality of its services but also how entrepreneurs, partners, governmental agencies, and public at large perceive it. That is why PR is a strategic management tool.

Having a reputation is not an organization's choice. Even if an organization opts not to build up its image in the eyes of entrepreneurs, partners, governmental agencies, and other groups, the image will nonetheless get established spontaneously, as a result of chance events, desultory information, etc. Therefore, an organization's ultimate choice is whether it wants its image to be formed spontaneously or it prefers to control the process. Building and securing a positive image are impossible without the establishment of permanent and effective communication with community groups and the media, which is a priority for the organization.

#### 1. Designing a PR Campaign

Often, the number of publications and participation in various events are mistakenly presented as achievements of a PR campaign. The object of PR is not to increase the number of stories addressing a subject, but to bring about a realistic change in the attitude of target audiences. It is important to understand that communication for its own sake makes no sense, and all PR methods and tools are just vehicles to achieve the goal of establishing the association's positive image.

Designing a PR campaign consists of five steps. First, to plan a PR campaign requires a review of the association's reputation (if it is a new organization). A PR audit like this, which is normally performed by the association itself and does not entail big expenses, should help you answer the following questions:

- What do the members think of the association?
- Do they pay fees for the services provided by the organization?
- Is the organization's membership growing? How fast? What affects it?

***PR creates the association's reputation, and is a tool of strategic management***

***PR is not the number of publications in the press but changing the public's perception of your organization***

- What is the attitude of local authorities toward the association's activity?
- What are reviews of newspaper reports, radio, and TV interviews and responses to them indicative of?

Second, define clear objectives for the PR campaign and identify the object of the PR campaign. The object should:

- answer the general strategy and philosophy (mission) of the organization;
- be understandable, realistic, and accurate.

For instance, the increased knowledge of businessmen involved in market trade about a certain service that is provided to them by the association, but not “the enhancement of the association’s image among businessmen”; or “adjustment of the opinion of the local government as to the actions taken by the association”, but not “establishment of cooperation with the authorities”. It is common knowledge the more accurate the object of the campaign, the easier it is to achieve it.

***A PR campaign comprises of a PR-audit, determination of target audiences, development and implementation of certain actions and repeated PR-auditing***

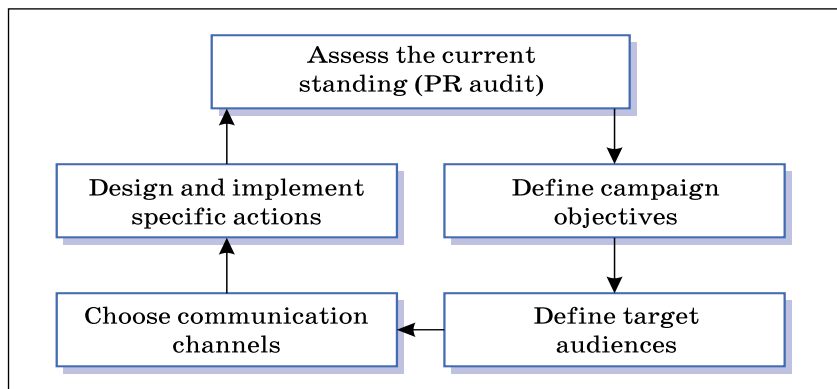
Third, once the object is set, identify target audiences for the PR campaign. Audience targeting, as is seen, is closely linked to identifying a target campaign – in this case, it will be businessmen or local government – with a high degree of accuracy (not “all businessmen”, but “those involved in the retail sale of vegetables and fruit”, not “local government” generally, but “mayor’s office”, “city council”, “district state administration”, tax service, etc.).

Fourth, after taking the preparatory steps, develop the specific activities of PR campaign. These activities include:

- identifying the message (messages) to be conveyed to target audiences; and
- selecting information channels and PR tools.

This part of PR campaign is the most complex and critical, so we shall discuss it in more detail.

And last, after the PR campaign is finished, evaluate it by comparing the actual results with the objectives set (for instance, whether this or that service is in greater demand among market businessmen than it was in the past, whether the organization’s membership has become more active, whether new members have joined it, by how much the percentage of members paying fees has increased, whether the opinion of government authorities has changed with regard to certain activities or to the program of the association, whether government authorities are prepared to cooperate. This evaluation of the PR campaign is also the first step in planning the next campaign.



### 2. Choosing Communication Channels

So we have a message (about a new or existing service of the association, about the association's success, about events, etc.) meant for a specific target audience. This message should be:

- Accurate and comprehensible: avoid confused proposals and terminology not familiar to the audience (Imagine, for instance, that this chapter would begin as follows: "PR is based on the synergetic principles of interaction between objective trends of homeostasis conservation and dissipation minimization (self-orientation of the system toward the most effective use of the goodwill of a product or service), characteristics of adaptive and bifurcational development...". Would you continue reading?)
- The message must be true and realistic (for instance, it is not sensible to declare your intention to influence, say, the passage of decisions by the Verkhovna Rada if your association is little known even in your own region);
- The building of a positive image is linked to attitudes. Therefore, it is important for the organization to know how the target group reacts to the message.

Now, to deliver such a message, it will be necessary to choose time and communication channels that are most effective for each of the target audiences. It will be necessary to identify the channels the target audience prefers, those enjoying its confidence, and those used by it only to obtain information from.

Thus, we know already **WHAT** we want to say (the message), **WHY** we want to say this (the objective), to **WHOM** (the target audiences), and **WHERE** (the communication channels). **But HOW?** Let's look at the PR tools.

### 3. Commonly used PR tools

**Organization of PR events: press conferences, roundtables, presentations, business trips, workshops, press tours.** In organizing any PR event, you should bear in mind that a successfully conducted event in terms of place and time will enhance the organization's reputation. However, if an event is badly prepared, it may cause irritation at best and a negative attitude at worst.

Let us discuss the most common event, a press conference:

- When determining the date and time of a press conference, make sure that the needs of reporters are taken into consideration (for instance, deadlines) and that other events that "your" reporters can attend do not take place at the same time.
- Prepare a written invitation for reporters containing detailed information about the forthcoming event (subject, participants, duration, venue, contact information, information about buffet meal).

#### Communication Channels:

- The media (publications, radio, TV)
- Direct mail
- Association publications (booklets, newsletters, fliers)
- Presentations, briefings, roundtables, public hearings, seminars
- Conferences
- Letters
- Internet

#### A Man Is Known by the Company He Keeps...

*The golden rule for placing publications in the press (press releases, articles, notices, advertisements of a new service, etc.)*

So, you know what to state and have chosen the good and tested communication channel – the press. Let's assume you have information on a new service delivered to businessmen by the association, or on the results of a survey conducted by you, which is of public interest, or a notice about an exhibit...

The effect of information is often nullified because a notice about public hearings on some legislative issues, for example, is on the same page as jokes, horoscopes, or news on Hollywood stars. Here is a concrete example: an association is advertising training services for businessmen as follows: "Services for Businessmen!" Then comes a telephone number, at the bottom of the advertisement is the organization's logo. The ad does not give the association's name (the management may believe the logo is known to the public anyway) and, most important, provides no information on what "services for businessmen" are being offered. The most critical thing is that the ad is placed on the entertainment page of the newspaper.

**Advice 1: Choose business publications or, in the case of a general type newspaper, business columns.**

- Plan the technical details (sufficient number of chairs, space for TV cameras in the aisles, sufficient number of power outlets).
- Prepare cards showing the names and positions of the speakers, printed in large letters.
- The normal duration of a press conference is one hour.
- A person conducting a press conference should introduce the participants, regulate reporters' questions, and keep track of the time allocated for answers.
- At the beginning of a press conference, conduct registration of reporters during which press releases and other information material (copies of presentations made at the press conference, brochures about the association, photos, etc.) can be distributed.

***Development of Printed Materials: Press Releases, Analytical Stories, Booklets, Publications, Photos, Leaflets.*** Any information material about your association addressed to the target groups should meet all the criteria of 'message' (see above). As an example, let's look at the material that is used most often, *a press release*:

### **The Power of Printer's Ink On the Importance of Proofreading**

From our school years, we remember the classic ambiguity "execute not pardon" and the role of the calamitous comma in it. Before having anything put to bed, whether it is your booklet or a newspaper story, a press release or merely an announcement, or slogan. It is essential to read thoroughly over what you have written! For example, a non-governmental organization published a story where it appealed to the public: "The main streets of our town have been dug through! Is there anything being done to trim up what has been dug through? What for? And how? To line the inside with marble? There are a lot of such examples: "killed casualties", "violin of crime", etc.

**Advice 2: Proofreading is a sine qua non. Remember that manuscripts do burn if written with a wooden language.**

- Structure your press release so that the most important information appears first. The first paragraph (at most, the first two) should contain answers to the questions: who? what? when? where? and why is it important (necessary)? The press release should start with a concentrated news followed by the background. Such structure will be easy for a journalist to edit.
- Limit the press release to one, at most two pages. Do not stress one particular thing. Journalists will decide themselves what should be highlighted.
- The press release heading should disclose the contents but not tell the story.
- Avoid professional jargon and unjustified use of foreign words.
- The abbreviations used in the press release should be spelled out when they are mentioned first.
- A press release is not a story and therefore should not contain subjective judgments and emotional expressions (except quotations).
- It is desirable that the press release contain quotations from the organization manager as well as from other organizations' representatives: journalists like using these in their stories.
- When possible, enclose illustrative matters (photo, video, audio) with your press release and add a legend (who speaks on the tape, who is shown on the photo, where the video was shot, etc.).
- Make sure that reporters have received the press release and answer additional questions, if any.
- Compare your texts with what has been written in the stories; it will help you to improve your press release writing skills.

Remember that you should not bother reporters if all you want to say finds room in a press release; otherwise they may not come the next time, when you have a really serious event. And one thing more: avoid avalanching editorial offices with press releases describing trivial events in hope that some of them will break through to the paper columns. Press releases containing no information or news will be certainly trashed, and the organization will lose credit.

### ***Development of Video and Audio PR Material***

**Radio:** In addition to radio interviews, the association can prepare a short daily commercial or an ad to be broadcast in prime time, when most listeners get ready to go to work or come back from work (between 8 and 11 a.m. and between 6 and 9 p.m.). In the case of radio, commercials can be broadcast together with other ads or with news programs.

**Television:** It is better to see once than to hear a hundred times. Indeed, television is one of the most influential communication channels. The is the following principle underlying PR: the more issues that are resolved as a result of one idea, the more potent this idea is. If, for example, the idea behind your radio commercial is also applicable to TV, all the better. And if it is also duplicated by external advertisement or by notices in the local press, and the audience is well targeted, the effect of your idea will be just formidable.

Besides commercials, less expensive advertisement can be televised, specifically:

- creeping line ads in programs addressing business issues (or social issues, depending on the message);
- participation in programs, talk shows and discussions on local TV channels, an interview with the association's manager, etc.

***Participation in Different Conferences, Roundtables, and Workshops that Are Held by Other Organizations; Business Trips, Press Tours, Briefings.*** Before commenting on this PR tool, let us discuss its noticeable difference from most of the previous ones, such as publications in the press or radio and TV commercials and the difference between PR and advertisement.

In contrast to advertisements, which carry information and strongly encourages people to buy something, PR methods are geared toward creating a positive image of an organization. Here is a situation illustrating the difference between advertisement and PR: when an organization is in trouble, promotional events are terminated but not PR.

Most successful Ukrainian business associations focus on PR rather than on the advertising their activities and do not limit themselves exclusively to the mass media. The latter do play an important role, but PR also deals with:

- addressing a target audience at workshops, roundtables, and presentations;
- participating in or organizing community and social events (exhibits, municipal development programs, conferences);
- mailing letters to government agencies and other associations;
- participating in the work of committees for business issues under local governments, independent analytical groups, and universities; and
- issue of own publications.

The association's choice of PR is also because it is more cost effective (an advertisement requires buying newspaper space and air time, whereas PR only requires good contacts with the local media).

Now let's discuss in more detail speeches, presentations, lectures; the latter also relates to radio and TV interviews, and participation in programs – in a word, all that concerns the ability to handle an audience or deal with the mass media.

### ***Conciseness and innovation are sisters of a radio insert.***

#### ***How to create an advertising radio insert***

1. Radio insert is neither a masterpiece, nor encyclopedia of the association.
2. Conciseness is a gift for any insert. It must be optimal in length, impact, number and quality of special effects. Divide the radio insert into elements and give an honest answer to the question: why do you use this or that element? What will happen to the insert if it is removed altogether? If half of it is removed? Avoid "vampires" that attract all the attention and have nothing to do with the core of the matter.
3. Nevertheless, the radio insert should differ from its "neighbors" in the ad block. Stereotype inserts are perceived by the audience as "the advertisement". Therefore, before making an insert you should listen to advertisement blocks of a radio station you selected: if all inserts are produced with musical background, yours should be broadcast in "radio silence".
4. Certainly, the scenario of your insert (as of your entire message) should bring the following info to the audience: who you are, what you do and why and how to contact you. It's worthwhile to repeat the contact information twice - at the beginning of the insert and in the end of it.

***There is a considerable difference between PR and advertising: PR techniques are wider and more cost effective.***

### 1. Speeches, lectures, and presentations

The rules for speech preparations are easier to illustrate by telling how speeches should not be made. Poor speeches are often the result of not hearing the other speeches and not always knowing the topic of the conference well; not speaking to the point; and not linking the speech to the subject of the event. This entails using phrases that you hope will bridge the gap between your speech and the subject of the conference and then reading the rest of the speech without changes (something like: “The public, to my mind, for some reason disregards a survey conducted by our farmers’ association on the seasonal purchase of vegetables. Vegetables are plants whose fruit....”). Another well-proven method for ruining a speech is to raise a controversial issue, using such populist phrases as “how long can this be tolerated?”, “is the public going to be silent about it?” and so on; offering nothing constructive; and then watching the rest of the event becoming bogged down in long-winded debates involving “the public”.

#### **"Formula" of a Good Speech**

*A speech should:*

- reflect the subject of an event; if your statement does not concur with the subject of an event, do not give it;
- be presented in easy-to-understand language and accompanied, as appropriate, with a slide show if you are going to refer to figures, survey findings, etc.;
- be realistic and constructive; and
- stay within the time limit and be concise.

There are also non-standard approaches to poor speeches:

- public complaint: “we are being ignored”, “we do not have the legal framework and funds for this”, and so on. These topics are not forbidden or patently doomed to failure, but without a constructive approach or proposals to rectify the situation, your speech may produce a “woe-to-him-that-is-alone” effect; and
- the pains of harmful determination: “we can’t discuss this subject until we determine the terminology”. You then launch into a long description of the legislation, its inadequacies, current interpretation of the given issue, reading of tables (without prepared transparencies) which, in a way, is not bad, provided that this is what you have been invited for and you are a professional in this area.

### 2. Interviews in the Mass Media, Addressing Audiences

Have you ever faced a situation when information about your organization’s success or, which is even worse, its failure reached the mass media with journalists asking for an interview or a speech on radio or TV... And you have little experience in dealing with the press and making public speeches. Or, suppose, you agree to be interviewed on a complex issue correctly believing that it would be better if the journalist gets this information with your interpretation rather than through hearsay. There can be lots of such occasions, and they are common for those who regularly deal with journalists or audiences. Let us discuss ways to answer difficult questions.

This section discusses conflict or difficult questions, which are challenging or contain negative stereotypes with respect to an interviewee, topic, or organization.

One of the simplest techniques is to use an answer of two parts: the first part repeats a given stereotype and the second debunks it. It can be rationalized, destroyed by a challenge, the view point can be changed, or it can be compared to similar comments; in other words, the second part of the answer starts the logical presentation of what should be said to the interviewer, audience, etc.

So what should you do when the audience’s or the interviewer’s attitude toward the subject or your actions is negative? What should you do when there is a strong bias against existing arguments? In such cases, there is no use of arguing. It is better to... agree.

*Method 1:* Sometimes, it may be useful that you explicitly call the negative stereotype and agree with the objections.

Answer outlines: (see examples in the right column)

“Yes, you are right! But what’s wrong with it?”

“Nobody argues about this. But...”

*Method 2:* “Dispersion” of a negative stereotype or accusation.

The following experiment has been conducted on several occasions. Two groups of people were shown a photo of a person, but this was preceded by various comments (or, as we put it, “different standards for comparison”). In one case, the people were asked “to describe this criminal” and in the other “to tell about this hero of today”.

In the first case, respondents said: “The low forehead is a sign of idiocy, the protruding chin speaks of cruelty and reticence, and the shadow of a smile betrays sadistic traits”.

In the second case: “The high forehead is a sign of intelligence, integrity, and openness. The thick eyebrows speak of strong will, courage. The smile shows the person’s kindness”.

All these different opinions were expressed about the same person! Our opinion depends, probably, not on an object alone, but also on the standard to which this object is compared. Thus, if you cannot control an object, you can control the standards to which it is compared. This is why, depending on the task, the object of “accusation” is linked to different standards: “dreadful”, high, low and common standards (see examples in the left column on the next page).

**Association’s Website.** In industrialized countries, an organization’s website is a combination of a business card and an advertising poster. Indeed, your organization’s website, which describes the organization’s history, activity, experience, successes, and, what is especially important, services, is a powerful communication channel and a PR tool. Business associations traditionally use the following headings:

- About us (key facts and achievements of the association);
- Our services (list and description of all services offered by the association);
- Calendar of events;
- List of members of our organization (information about their activities and services);
- Join us (how to become a member of the association);
- Pages with restricted access (only for member of the organization – information provided by the association for membership fees should be placed only on these pages);
- Library or publications (brochures, newsletters, other publications of your association, surveys, polls, and analytic papers. A separate column entitled “They write about us” can be designed, which will help you keep track of what the newspapers write about your organization);
- Forum (to discuss on-line the different issues that are of interest to your target group/ members);
- How to find us (contact information. It is advisable to have a separate note on the first page, containing this information);
- Links (if desirable, links to other business associations and useful resources for your target group/members, etc.).

### EXAMPLES METHOD 1

#### *Those Disliking It Are in the Minority*

After the opening performance of *Pygmalion*, the enthusiastic audience called the author onstage. While giving bows to the applauding public, Bernard Shaw suddenly heard somebody's loud voice:

"The play is just rubbish! It is nonsense!"

"I completely agree with you", Shaw replied. "But, unfortunately, we are in a minority!"

#### *Safe Worm-eaten Apples*

Traces of worms on fruit make these difficult to sell. What can be done? A farmers' association in Los Angeles addressed buyers with an appeal: "Buy our worm-eaten apples!"

As a result, the sales of worm-eaten apples rose as compared with intact ones, which, probably, had been processed with various health-hazardous chemicals.

#### *"Yes, You Are Right"*

A meeting of a candidate with electors. Somebody of the audience utters an accusation:

"You came to nose out, to feel out..."

The reply was:

"Yeah, I nose out and feel out. I just came for this!"

Comment: This is an example of when it is enough to repeat a stereotype, and you do not need the second part of answer (its debunking).

**EXAMPLES  
METHOD 2**

***How to Distinguish Weeds  
(Dreadful Standard)***

A paper in Brussels received a letter: "I have set up a small garden, which gives me a lot of pleasure. Unfortunately, I cannot distinguish useful plants from weeds. Could you please help me?"

The paper could not leave the reader's letter unanswered. However, the issue is distracting and may entail further questions. What should be done? There should be an answer but one that prevents further questions such as this.

The paper answered: "Pull up all plants in your garden. Those that grow again are weeds".

***Russia, Babushka, and Kettle  
(General Standard)***

A babushka stole a tin kettle worth less than 50 kopecks, and was subject to jury trial. The prosecutor decided to neutralize the impact of the defender's speech beforehand, saying everything that could be said in the defense of the babushka: the poor babushka lives in severe poverty, the larceny is insignificant, and the defendant causes not resentment but pity. The property, however, is sacred, and our whole system is based on property. So if we allow it to be undermined, our country will perish.

Then the defender stood up: "Over its more than thousand-year existence, Russia has known many calamities and has been tried many times. It was torn by steppe tribes, Tatars, and Poles. Twenty languages assaulted it and captured Moscow. It has endured and overcome all the ordeals, just growing and becoming stronger. But now the babushka has stolen an old 30-kopeck kettle. This is not what Russia is able to stand, and it will be destroyed forever".

The babushka was acquitted.

There is no need to have a fantastic and expensive-looking website. The main purpose of the site is to provide clear and accessible information on your organization. See to it that your site is not lost in the web of over 20 million pages (if you do not ensure easy search of your site, the information may be left unnoticed). Register your website with major Ukrainian (<http://www.meta-ukraine.com>), Russian (<http://www.rambler.ru>), and foreign search systems (<http://www.altavista.digital.com>, <http://www.google.com>, <http://www.yahoo.com>, and others). Organize links to sites (of other associations, business support organizations, analytical groups, etc.). Become a member of the Ukrainian Banner Network (<http://banner.kiev.ua:8080/>). Consult your provider on further promotion of your site.

***Association Trademark: Logo, Slogan, Letterhead, Pens, Badges.***

The organization's trademark is also a part of PR, a part of your organization's image. Make sure that your design and slogan represent the philosophy (mission) of your association precisely and the direction of its activities. Use the trademark on your letterheads with entire contact information. Make your logo clear and related to the contents of your activities.

Let us discuss the slogan. People have always tried to find a compact and easy-to-remember form for expressing their thoughts; the result is choice words and aphorisms. You may have already thought of whether your organization needs a slogan but nothing apt has crossed your mind. It is sensible then to search through the popular aphorisms for the one that is in accord with your business and duly positions your organization and its services. When creating a slogan, you may use rhythm, rhyme, paradox, pun, and metaphor. The most common method of creation of a slogan is "folding". To develop a slogan with the help of "folding", it is necessary to select, on the one hand, a well-known (set, stereotype) phrase and, on the other hand, some "resource" of the organization (a name, an object used in the logo, a service, etc.) and "fold" them into one phrase.

Let us take a sheet of paper and divide it into two parts: the organization's resources are on the left, and the popular phrases that are associated with the "resources" are on the right. Let us assume that we have to develop a slogan for the Association of Public Catering Employees and the motto "the most delicious organization" does not suit us. We shall have something like this table:

Resources	Known phrases and expressions
Association of Public Catering Workers	The Book on Tasty and Healthy Food
A smiling woman in national dress with some kitchen items in her hands (used in the logo)	Each cook must learn to run the state. (Lenin)
Business, professionalism.	Bread is above all

- Association of Public Catering Workers – the Association of Healthy Business
- Each Cook Must Learn to Run Her Business. (Association of Public Catering Workers)
- Professionalism is Above All. (Association of Public Catering Workers)
- Professionalism is Our Bread. (Association of Public Catering Workers)

## CHAPTER 9: Public Relations

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**“Propaganda”.** In many associations, societies, and clubs abroad, “propagandists” receive a discount the next year for bringing into the organization a new member. This accomplishes three things: the organization has a new member; the “old” member is likely to continue his or her membership; and there is almost free promotion of the association by the “propagandist”.

In general, the system of discounts is an effective way to attract new members if you have made the right choice of target group and communication channels to advertise these discounts (along with the services themselves).

**GENERAL CONCLUSION:** *We have described the PR of an organization that analyzes and manages its reputation, an organization that knows what and how it wants to convey to its target group, an organization that reviews lessons learned and is not afraid of experimenting. PR is a continuous effort involving creativity and based on consistency, analysis, and clear orientation toward the organization’s objectives. In our case, PR is a management function that establishes and maintains mutually beneficial relations between the association and the public upon which, in turn, depends success or failure.*

***PR means work, creativity and targeting specific goals. It is a strategic management tool and a token of success.***

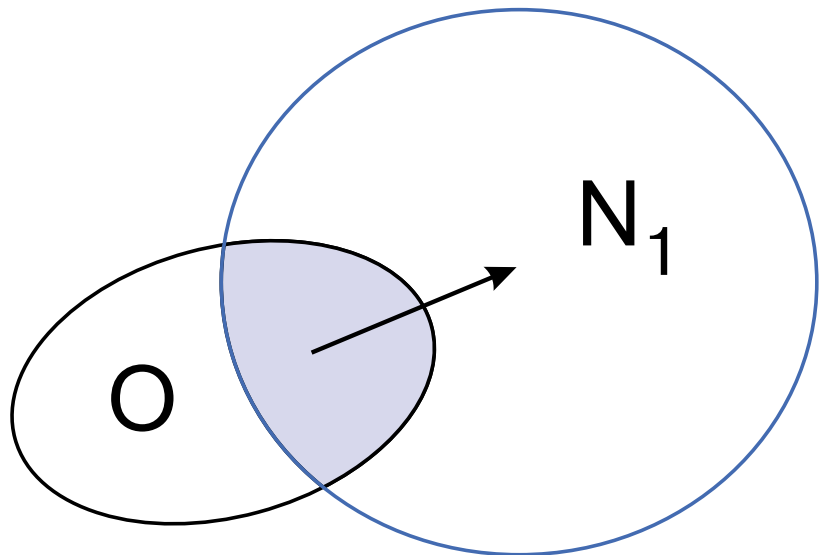
## CHAPTER 10. A Step Forward: Seize Opportunities

*Not all opportunities are to be used: some should be given up, and some, on the contrary, should be actively developed.*

When characterizing weak business associations, one may often say that they have scarce opportunities. And vice versa – that is, strong business associations have vast opportunities.

It should be noted that no matter how weak a business association is, in any case, it will have at least some opportunities. There is a certain structure of management, and there are employees or volunteers with certain knowledge and skills. Naturally, questions arise: Are we utilizing every opportunity? Do we have some opportunities we do not need? What new opportunities do we need? What opportunities do we have to give up?

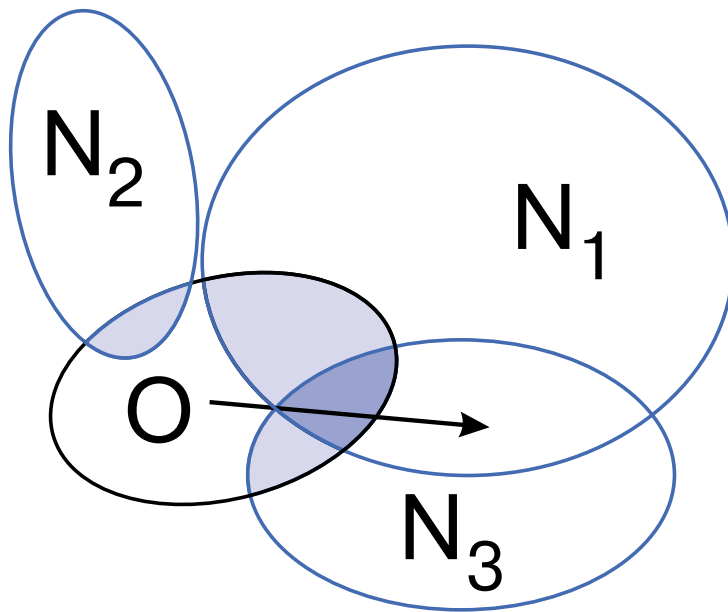
First, let us remember that a business association exists to satisfy the needs of its members and clients. Let us look at the graph (Fig.1).



One circle (with the letter O) shows the opportunities of a business association. The other circle (with the letter N<sub>1</sub>) shows the needs of the target market. If clients' needs are the focus of all activities of a business association, it needs only the opportunities that satisfy the needs of its members and clients. In the graph, this is shown as the intersection of the two circles (cross-hatched). If some of these opportunities are not demanded by the group of clients, they should be given up. In the graph, these opportunities do not intersect with the circle of target market needs. If the target market is of interest to us, we have to develop opportunities in the direction shown with the arrow (Fig. 2).

## CHAPTER 10. A Step Forward: Seize Opportunities

However, the business association should not limit itself to such a simple solution. One may find new target markets to apply the opportunities that were not utilized ( Fig. 2).



New markets are shown in the graph (with the letters  $N_2$  and  $N_3$ ).

If the business association has to from several options, it should look for synergy and develop opportunities in the direction of joint intersected markets (the thick black arrow).

# CONCLUSIONS

It is time to draw some conclusions.

First we made clear what a “business association” is. A business association is a voluntary union of business people, which satisfies both the individual and group interests of its members, who have no property interests related to the association.

Since business associations emerge and exist to serve the needs of its members, the question which arises is how to identify which needs should be satisfied and which should not? In the course of this manual, we conclude that the most accessible source of information about needs are the association’s members and clients. We touched upon issues related to demand registration and how to group those needs. Having looked at some examples we made it clear that a business association does not satisfy all needs. Instead, it focuses on common group interests consistent with the organization’s mission and with its target market.

A mission states the reason for the organization’s existence. It is the answer to two simple questions. First, who are we? Second, where are we going? We have tried to deal with a philosophical question – which comes first, an organization or its mission – and have seen that a mission can and must change over time.

Since a business association does not satisfy the needs of all its members, we identified the attributes of those whose needs do get satisfied. Using marketing terms, we defined our target market and basic marketing processes related to business associations.

Since a business association is a membership-based organization, we looked carefully at what motivates its members. We identified the potential benefits of membership, for both the association and for its members. We hope that a clearer understanding of membership benefits will become a helpful instrument for strengthening membership bases and will allow organizations to better satisfy members’ needs.

Having identified clients’ needs and opportunities related to membership, we have created and analyzed some services that a business association could provide. While the examples we provided may seem overly simplified to some experienced managers, their purpose was to illustrate the important aspects of this process.

The capacity of a business association is a provocative and central issue in our opinion. We have defined organizational structure and finances as critical elements of building its capacity. We have looked at some aspects of an association’s structure and reflected on advantages and disadvantages of various structures and the use of volunteers as opposed to staff members. As for the finances of an organization, in this chapter we have only talked about two simple methods for improvement. The first is to “sell more”. Here we have looked at the main sources of income for a business association. The second option is to “spend less”. Here we have discussed cost management and provided budgeting examples.

Public relations is a function of association management. Effective public relations requires constant attention to the flows of information about the organization. If done correctly, it will establish and maintain a mutually beneficial relationship between the association and its community – which can help determine whether the association is successful or not.

Finally, we have proposed a simple scheme that will help an association to identify how to plan for further development and improvements to the organization’s structure, increase its effectiveness and competitiveness. We firmly believe this is the only way to build a viable business association that satisfies needs if its members and clients.

So, dear reader, good luck to you!

## ANNEX: Legal Status & Form of Ukrainian Business Associations

### I. Legal Status

As of mid-2001, the right of Ukrainian entrepreneurs to form and participate in associations are guaranteed by Ukrainian laws at various levels and by Ukrainian court decisions. International agreements ratified by the Verhovna Rada are also considered to be legislative acts of Ukraine (and other Ukrainian laws may not interfere with guarantees accorded by such agreements). Therefore the provisions of specific international agreements are also pertinent to understanding the legal status of Ukrainian associations.

It should be noted that such guarantees are granted to entrepreneurs proper. Although Ukraine has not yet approved a single framework law on business associations, attempts to limit the area of its regulation by only “employers’ associations” would narrow significantly the right of entrepreneurs to unite in general. In fact, most private entrepreneurs do not hire employees, and as such, are not employers. Besides, many persons for various reasons often prefer to skip official registration as entrepreneurs - but even this does not curb their constitutional right to create associations in order to protect and jointly implement their economic and social rights.

#### The Ukrainian Constitution

The Constitution of Ukraine holds several important guarantees for the activities of a business association. Article 36 proclaims the rights of citizens to create unions, including NGOs and professional associations.

Another important guarantee is the right proclaimed by Article 42 for every individual to engage in entrepreneurial activity that is not prohibited by law. It is a personal right that is to be protected against all attempts to block or limit the right of entrepreneurs to engage in business activities of their own choice and without discrimination on the part of governmental agencies, bodies of local self-government, or of any other persons.

Of special importance is the right, confirmed recently by the Supreme Court of Ukraine, of every individual for a free choice of his/her representative or protector of his/her rights (Article 59). Thus, all entrepreneurs are free to protect their rights on their own, or to authorize somebody to do so, including those associations of which they are members.

The guarantees provided in the Constitution do not require additional grounds or justification. On the contrary, an official or government body that would restrict the rights provided by the Constitution would have to prove that implementation of these rights is incompatible with other constitutional guarantees or infringes on the rights of others. Not only is the government restricted from limiting the exercise of these rights, Article 19 of the Constitution prevents the government from requiring any additional actions (or procedures) that are not specifically required by the law.

#### International Agreements and Treaties

The following are the principal international law acts regulating the activities of associations in Ukraine:

- the 1966 International Covenant on economic, social and cultural freedoms (995-042);
- the 1950 European Convention on protection of human rights and fundamental freedoms (995-004, ratified by Ukraine in 1995); and
- Convention 87 of the International Labor Organization on association freedoms and protection of organization rights (993-125, ratified by Ukraine on 11 August 1956).

The Pact and the European Convention guarantee the right to form associations, including trade unions, and this right can be limited only by law (not by an administrative bodies!) in the interests of national security and public order, or to protect the rights and freedoms of other persons. Note should be made that the guarantees accorded by this Convention are applicable to both natural and legal persons. As seen from the title of the Convention, “fundamental freedoms” are not limited to “human rights”. The Convention has provided a legal ground for many legal entities (for instance, editorial boards of printed

media) to have won their case in court on the basis of this Convention.

The right to form associations is still relatively undeveloped in international law, but Convention 87 provides clear interpretations of what this right brings to business associations. These include:

- Article 2 provides “to all entrepreneurs, without any preference, the right to establish organizations of their own choice, without prior permission from executive bodies, and also the right to join such organizations on the only condition of compliance with the charter of these organizations”.
- Article 3 guarantees the right to freely develop charters and administrative rules of associations, to freely choose their representatives, to manage their staff and organize their activities, as well as to formulate programs and objectives. The article also prohibits participating states from restricting these rights or from any interference that hinders exercising these rights.
- Article 4 forbids disbanding or temporary closure of an entrepreneurs’ association by administrative decisions (e.g., decisions of the Office of Attorney General, the Antimonopoly Committee or the State Tax Administration) without proper court consideration.
- Article 5 proclaims the right of entrepreneurs’ associations to form or join federations and confederations, as well as the right of every association of this kind to become member of an international entrepreneurs’ association (the act of which will not trigger re-registration under Article 34 of the Public Association Act).
- Article 6 stipulates that provisions of Articles 2, 3 and 4 apply to federations and confederations of associations of entrepreneurs.
- Article 7 indicates that obtaining of the legal entity status by such organizations cannot be limited by requirements that contradict the contents of Articles 2, 3 and 4.
- Article 8 requires that national legislation does not interfere with or violate these guarantees.

Since the Convention addresses both “organizations of workers and entrepreneurs”, the legal status of associations is the same as that of trade unions. This is an important point, as the Ukrainian Constitutional Court in 2000 found that several Ukrainian regulations contradicted with the Convention in regards to trade unions. This decision was prior to the passage of the law on employers’ associations – hence there are grounds to believe that the norms of said law may also violate the Convention (e.g., requiring mandatory registration).

### Special Laws

Even though associations often act as enterprises or associations of enterprises (depending on their registration as either incorporated or unincorporated entities), their status as not-for-profit organizations is defined by such major Ukrainian legislative acts as the Law of Ukraine on Corporate Profit (334/94), the Law on Enterprises (887-XII), The Charity Organizations Act (531-XII), the Law on Employer Organizations (2436-III) and the Law on Citizens’ Associations (2460-XII).

Laws of Ukraine are sometimes unclear as to groups of individuals to be recognized as entrepreneurs. Thus under the Law on Enterprises, privately owned companies as legal entities are defined as independent business entities (entrepreneurs), otherwise all their shareholders and owners would also have to be recognized as entrepreneurs, even though under the Employer Organizations Act the ‘employer’ is understood as the company owner or the owner’s authorized representative, and not the business as a whole. It seems obvious that mere membership in a corporate union does not constitute entrepreneurial activity. These associations of legal entities are recognized as non-profit organizations under the Law on Corporate Profit in case unions, associations and other amalgamations of legal entities (1) are established with the purpose to represent the interests of their members, (2) do not perform any commercial activity and (3) are financed solely by the proceeds of membership fees (code 0012 of the Non-profit Register).

### **Administrative Acts**

As a rule, the main constraint in establishing an association of enterprises is the need to obtain permission by the Antimonopoly Committee (887-XII, Art. 3 part 1). As will be shown later, this permission is not necessary for associations that do not engage in business operations, but only represent their members and protect their interests.

Another possible obstacle can be the requirements of the registration agencies concerning, for example, registration of entrepreneurs' associations whose membership includes both individuals and legal entities. As discussed previously, the Public Associations Act does not offer a conclusive definition of legal entities participating in public associations. The matter is further complicated by the suggestion that legal entities as collective members could be represented by a personnel (or staff). First, this runs counter to the recognized principle of a free right to join and leave such associations (membership is approved or rejected by the majority of votes). Second, collective membership in an association can lead to a direct conflict of interest – an enterprise is to be represented by a group that has been traditionally considered as employees. In this case, it seems expedient associations to add a phrase in their charter that has proven useful: “Members of the association can be persons registered as subjects of entrepreneurial activities in (the given industry) and/or on (the given territory) or in (the given region)”.

### **Judicial Practice**

An important court ruling on the guarantees of association activity is the decision by Constitutional Court of Ukraine of 18 October 2000 [#11-pn/2000 (case 1-36/2000)]. It concerns compatibility of articles 8, 11 and 16 of the “Law of Ukraine on trade unions, their rights and activity guarantees” with the Constitution of Ukraine. Note should be made of the following components of this ruling.

First, the rights of an association's activity are not limited to the “territorial status” of the organization (e.g., a local, national, or international association). That is, a regional association is not limited to working only on the regional level if its members have authorized it (by its members' power of attorney or under agreements with other business associations) to represent their interests on, for example, the national level. This principle is addressed in Article 36 (part 3) of the Constitution.

Second, the Constitutional Court has confirmed the right to create an association on the basis of the free will of its members (irrespective of regional, territorial or industry characteristics) – and the absence of any requirement for employees of an enterprise to form an association.

Third, the Court recognized that certain government requirements (e.g., a ban on the creation of a new association if similar associations have already been established) and the attempt to set a cap on the number of members, are an infringement on the constitutional rights of citizens.

Fourth, any requirements of the compulsory registration of an association or explicit agreement of administrative agencies on such registration were declared equivalent to a preliminary permission for its activity, and therefore unconstitutional. Thus, for instance, if associations solely represent their members, no “permission” required by the State Antimonopoly committee for registration and/or activities may be considered as constitutional.

Last, the Court confirmed the right of associations to create national federations or confederations and other alliances of associations at their discretion.

Thus, we can conclude that the Constitution of Ukraine, the international agreements and the decisions of the Constitutional Court concerning associations do not provide for the numerous constraints introduced by administrative practice regarding the creation and operation of associations not engaged in business activities. More detailed analysis of these legal guarantees will serve as a reliable tool to protect the rights of entrepreneurs and their associations.

## **II. What are the organizational and legal forms of associations?**

Selecting the appropriate legal and organization form when establishing an association in Ukraine can have important consequences on the future operations and activity of the organization. An “association” implies, by definition, that it consists of several persons or entities as members. The law does not set a

minimum cap on the number of participants (founders and members) of any association. Under current Ukrainian legislation, membership-based business associations are limited to the following forms:

***Non-Incorporated:***

- Type 1: Public associations legalized via public notification (public partnerships);
- Type 2: Representative Offices of Foreign Associations;

***Incorporated:***

- Type 3: Public associations legalized via registration (public associations);
- Type 4: Associations of associations (both incorporated or non-incorporated);
- Type 5: Charities;
- Type 6: Unions of Enterprises.

**What are the basic differences of those forms?**

There are some norms that apply to all types of membership associations. Except for employers' organizations, there is no requirement as to the minimal number of founders and members for local business associations. In practice, however, there should be at least three legally able persons for the registration to be valid. As for a nation-wide association, it cannot be registered unless it has offices in the majority of regions (that is, at least in 14 oblasts or cities of Kiev and Sevastopol).

Some norms are specific to the type of an association of enterprises. For example, state owned enterprises may not participate in its work, neither can enterprises of coal and power industries (under Article 3 of the Law on Enterprises). At the same time, the Law on Employers' Organizations allows enterprises to form associations, irrespective of the form of their ownership.

As a public organization, a business association has practically no constraints on its reorganization or liquidation. However, its participants and/or other subjects of entrepreneurial activity may not be its legal successor – only other non-profit organizations or the state are eligible to act in such capacity.

In contrast to associations of enterprises, NGOs are not currently subject to foreclosure procedures on the grounds of bankruptcy and decisions of the court of arbitration. Hence, it is only within the jurisdiction of courts of law to stop or suspend the operations of NGOs on the proposal of the prosecutor's office or other juridical body in case of violations of article 37 of the Constitution and of article 4 of the Law on the Associations of Citizens (both articles define illegal activities of associations, such as establishing military units, etc.). The operations of an employers' organization can be stopped or suspended by a court's injunction in the event of this organization violating its charter; the court then can also rule on the date of election of new managing bodies of such an organization.

The table on the next page attempts to more clearly explain the various types and characteristics of business associations in Ukraine.

*Common Types of Business Associations in Ukraine*

Type of associations	Public organizations legalized by notification	Representative offices of foreign associations	Public organizations legalized by registration	Associations of associations	Charities	Unions of Enterprises	Employers' Organizations
<b>Laws Regulating Establishment and Operations of the Association</b>	Law on Public Associations # 2560, 1992	Resolution by Cabinet of Ministers # 140, 1993	Law on Public Associations # 2560, 1992	Law on Public Associations # 2560, 1992	Law on Charities and Charitable Activities # 1531, 1997	Law on Enterprises # 887, 1991	Law on Employers' Organizations #2436, 2001
<b>Legal Entity/Public Limited Liability</b>	No	No	Yes	Yes	Yes	Yes	Yes, if not otherwise stipulated in the Statute
<b>Equal Rights (One Person - One Vote)</b>	Yes	Yes	Yes	Yes	Yes	No	Yes
<b>Limited Distribution of Assets Among Participants</b>	No	No	Yes	No	Yes	No	No
<b>Limited Participation of Legal Entities</b>	Yes	Yes	Yes	No	No	No	No

Below we provide some additional analysis of the two types of associations that choose not to register as legal entities. These are increasingly popular options among Ukrainian NGOs due to the difficulty of establishing other types of associations and additional pressures involved due to significant time losses and mandatory reporting procedures. Time-consuming registration and reporting procedures for registered public associations discourage many potential participants of associations, particularly private businessmen, from going through official channels.

In addition, registered associations are subject to control by numerous governmental agencies (tax administrations, statistics, registration and licensing agencies, local government bodies, prosecutor's office, fire hazard inspectorate, etc.). As a result of fines and duties levied by these agencies, many NGOs in Ukraine have to close their operations while others are often unable left with little funds to offer services to their members.

### Associations Legalized via Public Notification

It is assumed that most acting associations operate as partnerships and do not care about registration. As a result, associations legalized via public notification have become an attractive alternative to registered NGOs. Such associations may include simple partnerships, ad hoc committees, and branch offices of registered associations. These associations can be made legal in less time and without payment of a registration duty, even though many problems emerge in managing such associations.

One related problem is that Ukraine recognizes partnerships only between legal entities or as associations of legal entities. Moreover, the current Civil Code prohibits joint activity and joint ownership between natural persons and legal entities. This means associations legalized via public notification cannot combine membership of both natural persons and legal entities.

For those interested in establishing such type of associations, the most useful approach seems to be conformity with the following norms that both are appropriate for both the operations of registered associations and associations legalized via public notification. (Additionally, these norms are consistent with the draft revisions to the Civil Code, which means associations following these guidelines will not require significant changes once the new Civil Code is adopted). Such norms include:

- two or more partners freely define the goals and the contents of the association in a written agreement consistent with current laws and which does not allow payment of dividends (in Ukraine, dividends obtained as a result of joint activities without creation of a legal entity would be subject to taxation as dividends);
- partners may offer their funds, pieces of property or ownership rights as their contribution (not their services or work);
- real estate and other property that is subject to obligatory state registration on behalf of one or several partners, but not to all of the partners;
- the agreement should specify the procedure for compensation of partners' expenses incurred in the interests of their partnership;
- the agreement should specify that each of the partners has the right to act on behalf of the association, unless the agreement authorizes several or all partners to act jointly (according to a written agreement or as a result of a power of attorney provided by the rest of the partners);
- partners cannot refer to lack of authority by a certain partner in his dealings with third parties on behalf of the partnership, unless they can prove his fraud or that the third parties have been aware or should have been aware of this lack of authority;
- partners will incur costs or losses proportionately to their contributions (whereas in non-profit organizations with the status of a legal entity – and one needs to remember this! – such contributions are deemed equal, and participates as a rule are not obliged to incur costs or losses if these exceed their respective contributions);
- partners will have access to the joint activity documentation;
- the agreement can provide for continuation of the activities of the association despite the termination of membership of one of the partners;
- partners are subject of joint liability for losses incurred and for third person liability in case of liquidation of the association;
- each of the partners is free to terminate membership in the association, but is liable for possible losses incurred by the association over a certain period.

## **Representative Offices of Foreign Associations**

A special category is made up of representative offices of associations legalized in foreign countries (particularly where the terms are easier for legal entities to create an association). These offices have the status of non-residents, if they do not engage in other activities beyond representing the interests of the association and those of its members. As a result of this non-resident status, they are not required to pay profit tax in Ukraine and will have fewer constraints in terms of currency regulation.

The disadvantage for such representative offices is the far higher registration fee (currently this is equal to USD 500), the existence of offshore zones list that may lead to retained profit, and the need to carry out certain expenses in the country where the association has been legalized. However, these disadvantages can be mitigated if the foreign or international association pays the operating expenses of the representative office in Ukraine.

## **Public Organizations Legalized through Registration**

For some categories of public organizations, i.e. chambers of commerce, stock exchange markets, credit unions, pension funds, mutual insurance partnerships and international public organizations, registration is mandatory, according to legislation. If charters of registered public organizations provide for registration of their affiliates (departments, subsidiaries or representative offices), affiliates can also be legalized through registration. Branches of foreign business associations, which are legal entities compared to their representative offices, will be subject to registration with the Ministry of Justice.

Registered public organizations may have open membership and are subject to minor limitations established by the Constitution and laws, and the Constitutional Court (!) (Chapter 32) is the only entity authorized to compulsory dissolution of international and Ukrainian organizations.

Nevertheless, this has serious drawbacks. Unjustified division under territorial status, not applied to unions of enterprises, requires repeated registration in case of change of territory where they operate (i.e. in case they join international organizations). “Collective membership” does not provide for a public organization to unite entrepreneurs regardless of their status, according to MOP Convention No 87, i. e. persons and legal entities. Finally, fines and temporary prohibition by courts of some organizations or activities establishes a precedent of administrative or criminal responsibility of a legal entity in Ukrainian legislation. Such sanctions are even less understandable with respect to public partnerships, which are not legal entities.

## **Unions of Public Organizations**

It’s worthwhile mentioning that all or some of the members of “unions of public organizations”, and the unions themselves, may operate without the status of a legal entity and be legalized through notice. Only unions with international status are subject to registration with the Ministry of Justice. Public organizations can be founders of unions (Item 11) with open membership. Another advantage of such a union is the possible property division between its members, which, as non-profit organizations, can obtain property of other non-profit organizations. Other standards for such unions are similar to the provisions regulating the establishment and operation of public organizations legalized through registration or notice.

## **Charity Organizations**

This form of business associations is rarely selected but it has its advantages: free participation of legal entities (excluding governmental and municipal enterprises), right to participate in various governmental and international programs and modest registration charge. Charity organizations do have restrictions in the portion of administrative expenditures (up to 20% of income) and should make their activities and revenues public. But they have the right to obtain grants and provide tax-exempt assistance to persons involved in scientific (marketing) research, studying at educational institutions or undergoing professional training. Therefore, business associations oriented at governmental orders, educational or research projects should use the advantages of charity organization status.

Among their drawbacks is retaining of a territorial status and the fact that since 1998 the Ukrainian legislation has twice required their repeated registration in order to retain their status.

### Unions of Enterprises

This form is quite natural for enterprises – votes are distributed according to their dues, and are distributed both at the time of business association operation and after its cessation. Restrictions regarding territorial status are not applicable to unions of enterprises but some enterprises cannot enter unions (state enterprises, coal and power enterprises, etc.). It is easier to register unions of enterprises but they may be declared bankrupt. Nevertheless, in Ukraine they are more uncomfortable with such restrictions (including aforementioned approval with the Antimonopoly Committee or the State Tax Administration to obtain the status of a non-profit organization) as very often unions represent and protect purely commercial interests of their participants or provide services not subject to additional privileges.

### Organizations of Employers

This organization and legal form is created, first of all, to carry out the functions of social partnership (i.e. relationships between trade unions and the state), which was reflected in specific standards for this category of public organizations. They are described in detail in a separate comment and previous analyses. It's worthwhile mentioning that territorial status restrictions are applied to organizations of employers, like to other organizations. These organizations are unique among all organizations mentioned in this review in that they pay entrance and other fees (Chapter 11 of Law), but they are allowed to distribute property in case of liquidation of business associations. On the whole, this form is closest to trade unions but some legal provisions regulating their set-up and activities contradict, regrettably, the Constitution and international agreements of Ukraine. For instance, all Ukrainian organizations of employers must include no less than one thousand of founders, which complicates their set-up and activities.

Therefore, the analysis of Ukrainian legislation and jurisprudence demonstrates that entrepreneurs' selection of representatives of their rights and interests does not depend on territorial status of business associations or their member restrictions. It is not the organization and legal form of business association that matters but what types of activities it undertakes and what types of revenues it would like to obtain.

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